

MICHIGAN  
FINANCIAL  
INSTITUTIONS  
BUREAU

99

1999

*Annual Report*

MICHIGAN  
DEPARTMENT  
OF CONSUMER  
& INDUSTRY  
SERVICES



Kathleen M. Wilbur, Director

John Engler, Governor

*This report is published pursuant to Section 20 of the Banking Code of 1969 (1969 Public Act No. 319, as amended). Sec. 20. For each calendar year the commissioner shall compile and publish an annual report in such form and containing such information as the commissioner may determine necessary to reasonably summarize the operations of the bureau during such year.*

*3,000 annual reports were printed at a total cost of \$8,900 and a unit cost of \$2.97. FIB/A-2002P (3/00)*

*Request for copies of this publication should be directed to:*

Financial Institutions Bureau  
P.O. Box 30224  
Lansing, MI 48909

# TABLE OF CONTENTS

Mission Statement . . . . .	2
Commissioner's Comments . . . . .	3
Tradition . . . . .	8
Significant Developments . . . . .	10
Office of the Commissioner . . . . .	20
Office of Policy and Legislation . . . . .	22
Bank and Trust Division . . . . .	23
Credit Union Division . . . . .	33
Consumer Finance Licensing and Enforcement Division . . . . .	42
Consumer Finance Examination Division . . . . .	48
Office of Administration . . . . .	52



**CONSUMER  
& INDUSTRY  
SERVICES**

Kathleen M. Wilbur  
Director  
Consumer & Industry  
Services



Gary K. Mielock  
Acting Commissioner  
Financial Institutions  
Bureau

The Annual Report is also on the Michigan Financial Institutions Bureau's Web site. Once you are at the site, you can also browse for general information about our regulated lenders. Everything on the site is public information, and everyone is welcome.

You can find the Michigan Financial Institutions Bureau Web site at:

<http://www.cis.state.mi.us/fib>



## MISSION STATEMENT

The mission of the Financial Institutions Bureau (Bureau) is to maintain a regulatory climate conducive to healthy, competitive, and responsible financial institutions and, thereby, instill public confidence in these institutions. To fulfill this mission, the Bureau has four major goals:

1. To ensure that financial institutions operate safely, soundly, and in compliance with applicable law.
2. To ensure that financial services are available to meet the needs of Michigan citizens.
3. To provide a full range of competitive opportunities to financial institutions.
4. To encourage financial institutions to advance prudent economic development.

These goals are achieved through supervisory and regulatory processes, by developing a highly efficient and effective staff, and by developing and maintaining open lines of communication with consumers, financial institutions, governmental agencies, and others.

The Bureau operates under five guiding principles:

1. Dedication to excellence.
2. Achieving results through teamwork.
3. Maintaining a commitment to integrity.
4. Maintaining a focus on our mission and goals.
5. Commitment to sound management practices.

## COMMISSIONER'S COMMENTS



Gary K. Mielock  
Acting Commissioner

In the increasingly fast-paced world of financial services another year of change has drawn to a close.

In June, the Bureau bid a warm farewell to Commissioner Patrick M. McQueen, who had led the agency since May, 1993. When Governor Engler appointed me Acting Commissioner in June, I inherited an agency well-prepared to carry on its business.

And what a variety of business that has been. In January, then-Commissioner McQueen placed MCA Financial Corporation and its affiliates into conservatorship. On February 10, conservator B.N. Bahadur initiated voluntary bankruptcy proceedings. Ruling on a challenge by the U.S. Trustee, in April U.S. Bankruptcy Judge Steven Rhodes upheld the FIB action, agreeing with the Commissioner that, even though only two of the twelve companies were registered with the FIB, the "companies acted in concert, as one enterprise, and are therefore inextricably linked." As I write, the complex bankruptcy proceeding continues. (For more information, see the conservator's Web page at <http://www.aeg1.com/bbk/mca.htm>.)

Last year also saw the close of a three-year legal battle with the Comptroller of the Currency. In February, 1996, Commissioner McQueen filed suit in Federal District Court seeking a ruling that then Comptroller of the Currency Eugene Ludwig's decisions in a series of applications filed by Society Bank, Michigan, violated state and federal law and, in effect, usurped the state's right to determine whether it would opt in or out of interstate branching. Readers of prior reports will recall that the district court upheld the Comptroller's actions. In May, the United States Court of Appeals for the Sixth Circuit reversed the district court's decision and directed the lower court to grant summary judgment in favor of the Commissioner. In referring to the Comptroller's approvals, the court concluded: "The complex applications and



---

master plan involved propose instantaneous steps and maneuvers that would equal the actions of a Fred Astaire or a Gene Kelley.” The bank offices in question have been reestablished in accordance with the provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act.

I am pleased to report that the National Association of State Credit Union Supervisors (NASCUS), following thorough review of the Bureau’s operations and credit union regulatory program, reaccredited the Financial Institutions Bureau. Credit for this achievement belongs to Bureau staff, whether on the front lines as examiners or working their magic behind the scenes in administration, research, and other support activities. They work hard to provide prompt and high quality service. Their continued professional growth and development is an important part of our strategic planning. In addition to a strong commitment to training, we have implemented a more refined and objective system of employee performance measurement.

Two FIB executives have been elected to key positions in our national regulator associations. A. Ann Gaultney, director of the Bureau’s Examination Division, was elected president of the National Association of Consumer Credit Administrators (NACCA). She has been an active member of the board of NACCA, which represents the nation’s state regulators of nondepository lending institutions, since 1991.

In 1999, she and her staff developed and hosted a highly praised NACCA training seminar for state examiners of nondepository financial institutions from across the country. Roger W. Little, director of the Bureau’s Credit Union Division, was elected to the board of directors (NASCUS). He is the fourth Michigania since 1974 to serve on the NASCUS board, and currently serves on the Corporate Credit Union Task Force, the Member Business Loan Task Force, and the Performance Standards Committee.

Examination staff in the bank and credit union programs did double duty for much of the year, performing their regular supervisory duties as well as assisting federal regulators in assessing regulated institutions’ preparedness to handle the Y2K computer date change. Michigan institutions are to be commended for their efforts to produce a virtually problem-free transition to the new year.

Seven new state chartered banks opened in Michigan during 1999, and we continue to receive new bank applications. While consolidation still is occurring in the banking industry, the continued interest in new charters indicates that there remains an important role for community banks. This year’s applications were notable for the number seeking to serve outstate areas—Petoskey, Traverse City, and Sault Ste. Marie. Details of applications received and approved and institution openings can be found on the Bureau Web page, [www.cis.state.mi.us/fib/](http://www.cis.state.mi.us/fib/).

Last year saw substantial growth, as well, in the nondepository financial services sector, where the total licensee and registrant population in our seven licensing programs topped 5,000 for the first time. The first mortgage program, alone, grew over 28 percent over the course of the year.

One of the agency's challenges is effective regulation of these businesses with our relatively small staff. In 1999, in an effort to improve compliance with licensing statutes, the Bureau undertook enforcement action against over 200 first and second mortgage companies that failed to make annual activity reports or file annual financial statements. We expect improved compliance with these requirements in the future.

The continued general health and growth of the financial industry also enabled the Bureau to reduce regulatory fees for banks, credit unions, and mortgage companies in 1999. This was the first year for mortgage company fee reductions; bank and credit union fees also were cut in 1998.

The pace of change did not slow during the past year. We saw the Michigan Legislature and the Governor approve our recommended recodification of Michigan's 30-year-old banking code and the U.S. Congress finally act on amending the Glass-Steagall Act. The state law change was prompted by the cumulative changes in financial service markets, products, structure and technology that have occurred since 1969. We wanted to assure

that Michigan's banks had the powers and flexibility they need to stay competitive—not only with their traditional competitors, but with the new entrants to the market. And we wanted to assure that the FIB has the tools and flexibility it needs to regulate the changing banking business effectively as we enter the next century. (See "Significant Developments" in this report and our Web page for more information on the Banking Code of 1999.)

After two decades of debate, Congress' action to create a mechanism for the affiliation of banking, insurance, and securities business seems almost anti-climactic. The Citicorp/Travelers Group merger in 1998 set the stage and a new imperative for action to accommodate cross-industry affiliations. The resulting legislation does not go as far as some wished in the direction of breaking down the barriers between banking and commercial activities, but it strikes a balance on CRA reform, ratifies functional regulation of activities of financial holding companies, and creates a mechanism for others who wish to follow in the Citigroup path. We do not anticipate that the new state banking code will pose any barrier to institutions acting in conformance with the Gramm-Leach-Bliley Financial Modernization Act.

The Michigan Legislature also approved amendments that conform the Consumer Financial Services Act to recent structural and regulatory changes in the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan

---

Act. Operating fees now are based on volume of activity conducted, providing some relief for smaller firms. And there's no longer a requirement for branches of licensed firms to have separate licenses. The Bureau gained authority to issue cease and desist orders, improving our capacity to react to violations of the act.

The extent of change in participants in the financial services business is readily apparent to those who were in the business thirty years ago. Mortgage companies were relatively new to the scene. Banks were discouraged from competing head-to-head with each other by laws restricting products, locations and pricing. In 1969, insurance companies weren't yet making car loans, and securities brokers hadn't yet discovered how wildly popular mutual funds and cash management accounts would be.

ATMs were newfangled tools of uncertain utility when Michigan undertook to regulate electronic funds transfers in 1978, but today even the corner gas station may own the machine on its premises. The technology available to financial services providers has helped to spur both product development and product delivery and has made even back-room operations more efficient. Today's financial services customer has the opportunity to access deposit accounts via ATM, point-of-sale, telephone, PC, and the internet. Lenders increasingly are automating the loan application and approval process, with most types of consumer credit now available by

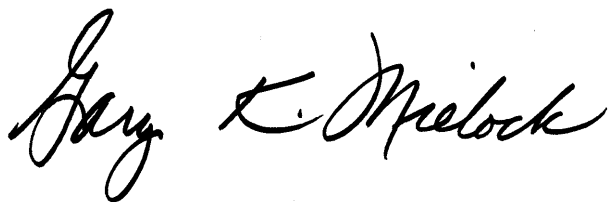
internet or automated loan machines. "Screen scrapers" are providing subscribers with consolidated statements on their financial accounts with different institutions. Consumers can pay bills electronically via third parties or through their depository institutions. Stored value cards are being tested around the world, as are electronic wallets that will facilitate remote purchasing—and even gadgets that will electronically beam stored value from hand-held PCs to a receiving merchant or similarly equipped individual.

In the changing financial services field today, competition is the name of the game, and the challenge for regulators is making sure the playing field is level and the players follow the rules. The influx of new players has resulted in stronger product innovation and more competitive pricing. Consumers are enjoying unprecedented choice in financial service providers and products, and I expect this trend to continue.

This is the 111th and final report of the Financial Institutions Bureau as an autonomous agency. In his State of the State Address in January, 2000, Governor Engler announced his intention to consolidate the Financial Institutions Bureau, the Michigan Insurance Bureau, and the securities division of the Corporation, Securities and Land Development Bureau. Effective April 3, 2000, the functions of these agencies will be merged in a new Office of Financial and Insurance Services created under Executive Order 2000-4. This new



structure will position Michigan financial services regulators to respond more cohesively to consolidation in the financial services arena as organizations take advantage of new authority under the Gramm-Leach-Bliley Financial Modernization Act. Our name will change, but our goal of providing quality service to financial institutions and the public will not. Be assured that you will continue to find us as professional and responsive as always. I look forward to continuing to work with you as the century closes and we enter the new millennium.



Gary K. Mielock  
Acting Commissioner

## COMMISSIONERS

Theodore C. Sherwood	1889–1896
Daniel B. Ainger	1896–1897
Josiah E. Just	1897–1898
George L. Maltz	1898–1903
George W. Moore	1903–1907
Henry M. Zimmerman	1907–1911
Edward H. Doyle	1911–1915
Frank W. Merrick	1915–1921
Hugh A. McPherson	1921–1927
Rudolph E. Reichert	1927–1936
Howard C. Lawrence	1936–1937
Charles T. Fisher, Jr.	1937–1938
Alvan Macauley, Jr.	1938–1939
Frederick B. Elliott, Jr.	1939–1941
Maurice C. Eveland	1941–1942
E. William Nelson	1943–1948
Maurice C. Eveland	1949–1956
Alonzo L. Wilson	1957–1960
Jerome J. Zielinski	1960–1961
Charles D. Slay	1961–1968
Robert P. Briggs	1968–1973
Richard J. Francis	1973–1980
Martha R. Seger	1981–1982
Eugene W. Kuthy	1983–1990
Russell S. Kropschot (Acting)	1991–1993
Patrick M. McQueen	1993–1999
Gary K. Mielock (Acting)	1999 to present

## TRADITION



Richard J. Francis  
Commissioner,  
1973-1980

### RICHARD J. FRANCIS (1973-1980)

Richard J. Francis was appointed Commissioner of the Financial Institutions Bureau on October 29, 1973 by Governor William G. Milliken. Mr. Francis became the twenty-second commissioner succeeding Robert P. Briggs who retired in July 1973.

Commissioner Francis graduated from University of Detroit High School and earned his Bachelor of Arts degree from Xavier University in Cincinnati, Ohio. He later graduated from Wayne State University Law School. Mr. Francis was an officer of Michigan Life Insurance Co., Detroit, where he became general counsel in 1966 and Vice President in 1967. He also served as general counsel for National Casualty Co., Detroit. Richard Francis was also active in various committees of the American, Oakland County, and Michigan Bar Associations.

As Commissioner of the Financial Institutions Bureau, Richard Francis saw significant changes in the way financial institutions conducted business. Legislation enacted during his tenure includes the Michigan Anti-Redlining Act, 1977 PA 135, and the Electronic Funds Transfers Act (EFT Act), 1978 PA 322. PA 322 took effect just as a new vehicle for financial services delivery, the automated teller machine (ATM), was beginning to appear in a few other states. ATMs quickly gained acceptance by consumers which, in turn, fostered development and growth of major, shared ATM networks. Though slower to appear, card-activated electronic point-of-sale (POS) terminals ultimately emerged as a convenient method of payment. Increasingly, consumers have used their debit cards in POS terminals at gas stations, in grocery store chains, and other retailers. Commissioner Francis frequently testified before congressional committees on electronic fund transfers (EFT).

During his tenure as Commissioner, Richard Francis emphasized for financial institutions the importance of adopting policies to govern their conduct of business. He expected boards of directors to develop written policies, which would guide institutions in their day-to-day operations. Bureau examiners reviewed practices of institutions for conformity with the written policies. This heightened focus on policies was a major contribution to supervision and regulation and remains an enduring legacy of Mr. Francis. The Bureau also issued several significant research studies and reports. On July 7, 1980, the Bureau submitted a "Final Report on Electronic Fund Transfer Services in Michigan" to two legislative committees. The report, mandated by the Electronic Funds Transfers Act, described and analyzed developments in the market for EFT services and recommended further legislative action.

In response to concern over alleged mortgage redlining, on April 13, 1976, Richard Helmbrecht, Director of the Department of Commerce, appointed Commissioner Francis Chairperson of the Governor's Task Force on Redlining. In December 1976, the Task Force issued a "Final Report of the Governor's Task Force on Redlining." Its chief recommendation was that the state act to assure the availability of mortgage credit to creditworthy individuals for structurally sound properties located in high-risk areas.

Also, in 1976, Commissioner Francis served on the Governor's Advisory Com-

mission on the Regulation of Financial Institutions (Commission). The Commission studied competition and structure of the financial institutions industry, methods of adjusting interest rate ceilings applicable to lending by financial institutions, and laws governing regulatory powers of the Commissioner of the Bureau. In its deliberations, the Commission also considered the goals of capital availability, consumer protection, and equitable regulation. The Commission made 38 recommendations including advocating greater pricing autonomy, phased-in liberalization of bank branching, and a more active role for the state in enforcement of consumer protection laws.

At year-end 1979, Michigan's 249 state-chartered banks had total assets of \$22.5 billion. Its 31 state-chartered savings and loan associations and 584 credit unions had total assets of \$4.1 billion and \$2.7 billion, respectively. There were also 350 licensees under the Regulatory Loan Act of 1963 having total assets of \$515 million and 2,189 licensed installment sellers and 350 licensed sales finance companies under the Motor Vehicle Sales Finance Act under Bureau supervision.

Following his retirement in June 1980, Mr. Francis returned to the practice of law. In 1985 and 1986, Mr. Francis was a board member and Chairman of the Small Business Association of Michigan. He currently resides in Birmingham with his wife Janet.



## SIGNIFICANT DEVELOPMENTS

### LEGISLATIVE DEVELOPMENTS

#### STATE LEGISLATION ENACTED

Text of these laws can be viewed on the Web page of the Michigan Legislature: [www.MichiganLegislature.org](http://www.MichiganLegislature.org).

**1999 PA 276** (effective 3/1/00) establishes a new Banking Code of 1999 that recodifies the Michigan law governing banking and repeals the Banking Code of 1969. The recodification was proposed to accommodate the evolution of financial institutions' products, structures and technology in the past three decades and to provide the Bureau and banks with the flexibility they will need to be effective in the next millennium. It represents the results of several years of discussions between the financial services industry and the Bureau. Highlights of the new law can be viewed on the Bureau's Web page at: <http://www.cis.state.mi.us/fib/>.

**1999 PA 275** (effective 1/5/00) modernized the Consumer Financial Services Act. This law provides lenders a way to obtain one license to provide a variety of financial services that ordinarily would require up to six separate licenses. The new law eliminates branch office licensing and restructures regulatory fees in conformance with changes made in 1996 and 1997 in the Mortgage Brokers, Lenders, and Servicers Licensing and Secondary Mortgage Loan Acts. PA 275 also provides the Commissioner with new supervisory tools.

**1999 PA 18** (effective 4/29/99) amends the Home Solicitation Sales Act to refine a 1998 amendment that inadvertently expanded the act's coverage to some transactions closed on a business' established premises. The amendment exempts consumer transactions with depository institutions and transactions consummated on a business' premises from the act and defines the term "written solicitation."



**1999 PA 234** (effective 12/28/99) amends the Michigan Credit Union Act to reduce the Michigan residency requirement for directors of corporate central credit unions. The previous law required that all directors of a corporate central credit union be residents of this state. If Michigan's corporate central credit union merged with the corporate central credit union of another state, Michigan would be unlikely to be chosen as the domicile of the merged institution because the other credit union would want to have some board representation. The new law requires only that one director of a Michigan corporate central credit union be a resident of Michigan.

**1999 PA 164** makes it a felony to prepare or submit an application for a loan in another person's name without that person's authorization. It exempts regulated financial institutions and their affiliates, officers, employees, and agents who have no prior actual knowledge that an application is being submitted without the authorization of the named applicant. A related measure, **1999 PA 166**, imposes similar strictures on those who act as mail drops for such activity or receive the proceeds of fraudulent credit applications. Tie-barred to these bills, **1999 PA 165**, established sentencing guidelines for the felonies established under Public Acts 164 and 165. All three laws are effective 2/3/00.

**1999 PAs 123, 132, 133, and 134** establish a procedure for speeding the tax-delinquent property reversion process. The existing process could take as long as six years, during which time a property might be

abandoned and deteriorate. The new laws provide that for taxes levied after December 31, 1998, tax-delinquent property will be subject to forfeiture, foreclosure, and sale over a three-year process. A two-year accelerated process is created for properties that have been determined to be abandoned.

**1999 PAs 84, 127, 128, 129, 130, and 131** create a Michigan urban homesteading program modelled on the lines of the nineteenth century federal program that settled the West. Under the program, qualified individuals could take over abandoned homes and bring them up to code or construct a home on vacant land and acquire title to the property. A person who rents a homestead property (which may include single and multi-family public housing) at fair market value for five years could acquire title to the property for \$1.00.

Qualified buyers, among other criteria, would need to be employed, make sure that school-age children in the household attend school regularly, be drug-free, not have been sentenced or imprisoned for a felony within the past year or be on probation for a felony, and have income below the Michigan median.

Local governmental units can either operate or contract with a nonprofit organization to operate an urban homestead program. Act No. 131 would allow the state housing development authority to make loans to buyers and grants to resident organizations.



**1999 PA 240** (effective 12/28/99) amends the Revised Judicature Act to provide that any action against a computer hardware or software designer, developer, or manufacturer that results from a Y2K computer date failure is an action solely in contract if:

- a) the plaintiff hasn't suffered personal injury; and
- b) the defendant has made a free repair or replacement available and has notified all registered buyers (or published notice in Michigan) of the possibly Y2K noncompliant article.

An action based on failure to detect or remediate a computer date failure brought against any person other than those named above would be deemed an action based solely in contract if the plaintiff has suffered no personal injury as a result of the Y2K failure.

**1999 PA 239** (effective 12/28/99) limits the liability of a financial institution that made a good faith effort to make and implement a Y2K readiness plan to actual economic damages. The law does not apply to a wrongful death suit. It would prohibit foreclosure on a mortgage default caused by a computer date failure if the borrower timely notified the lender of the failure. Actions under the law must be commenced before January 1, 2001, and it sunsets on January 1, 2003.

### **Administrative Rule Amendments**

The 1999 amendment to Secondary Mortgage Loan Act rules was instigated by 1997 amendments to the Secondary Mortgage

Loan Act. These amendments incorporated the content of some administrative rules into statutory language, repealed the statutory basis for some other rules, and added an option for practitioners to "register" under the law rather than become licensed. The Secondary Mortgage rule amendments conform to the new statutory changes, adding appropriate references to "registrant," rescinding outdated rules and those incorporated into the statute, and easing requirements for record-maintenance. For the text of the revised rules, see the Bureau Web page: <http://www.cis.state.mi.us>.

### **FEDERAL LEGISLATION ENACTED**

The **Gramm-Leach-Bliley Act (Public Law 106-102)**, signed by the President on November 12, 1999, represents an historic agreement between the House and Senate, following two decades of debate, to repeal longstanding prohibitions against mixing commercial and investment banking.

The key provision of the measure allows banks, insurance companies and insurance firms to affiliate through "financial holding companies" under the supervision of the Federal Reserve. National banks will be permitted to own operating subsidiaries that engage in activities that are financial in nature (not including insurance underwriting, real estate investment and development, merchant banking, and insurance company portfolio investments).

The act establishes functional regulation as the framework for supervision of financial holding companies and the non-bank financial activities of operating subsidiaries.

It confirms the continued applicability of the McCarran-Ferguson Act relative to regulation of insurance by the states. Under the new law, states may not “prevent or significantly interfere with” affiliations between banks and insurance firms or with bank insurance activities.

Existing unitary thrift holding companies and those whose applications were submitted prior to May 4, 1999 are grandfathered by the new act. Looking into the future, though, it prohibits the sale of grandfathered unitary thrift holding companies to commercial firms.

In the **GLBA** Congress also addressed consumers’ growing concerns about the privacy of their personal financial information. Public Law 106-102 requires disclosure of policies for collecting and protecting confidential information. It also requires institutions to allow consumers to opt out of information sharing with unaffiliated parties (except for consumer-initiated transactions, consumer reporting, examinations, and state and federal law compliance). It prohibits disclosure to third parties of credit card, savings and transaction account numbers for marketing purposes. Perhaps most important, it preserves state laws that provide consumers with greater privacy protection.

CRA reform was hotly debated in discussions on the measure. In the end, the Community Reinvestment Act was changed in three areas. First, the GLBA extended the period between CRA exams for small, well-run banks. Second, it requires banks and

community groups to disclose CRA loan and grant agreements. Third, financial holding companies whose insured depository affiliates have less-than-satisfactory CRA ratings are prohibited from engaging in—or acquiring a firm that engages in—new financial activities.

## BUREAU ISSUANCES

In 1999, the Bureau issued two declaratory rulings, several position statements, and one bulletin. These are available at the Bureau’s Web site: [www.cis.state.mi.us/fib](http://www.cis.state.mi.us/fib).

### DECLARATORY RULINGS

#### **Authority to Use a Subsidiary to Conduct Real Estate Surveys—3/8/99**

This declaratory ruling addressed whether Citizens First Savings Bank, Port Huron (Citizens), a state-chartered savings bank, is authorized under the Savings Bank Act (Act) to use a subsidiary to conduct real estate surveys in support of Citizens’ real estate mortgage business. The Bureau found that neither the Act nor any other state law prohibits a savings bank or its subsidiary from performing real estate surveys. The Commissioner ruled that a Michigan state-chartered savings bank may own and operate a subsidiary that performs real estate surveys.

#### **Financing of Negative Equity Under Motor Vehicle Sales Finance Act—4/23/99**

In this declaratory ruling, the Commissioner considered whether an installment seller licensed under the Motor Vehicle Sales Finance Act may finance negative

equity under an installment sale contract. The Commissioner found that the amount of negative equity on a motor vehicle traded in toward an installment purchase may be included in the cash price if the buyer and seller so agree in good faith. A dealer, therefore, could finance the negative equity as part of the agreed-upon cash price in connection with an installment sale of a motor vehicle.

## **POSITION STATEMENTS**

### **Applicability of Usury Law to Certificate of Deposit—6/8/99**

This position statement addressed whether a S&P-Linked Callable CD is a loan that is subject to the 25 percent ceiling in the Criminal Usury Act. The Bureau responded that, although the relationship between a bank and its depositor is legally that of creditor and debtor, it was unaware of anything in Michigan law indicating an intent to make usury laws apply to deposits.

### **Loan Processing Fee Under Secondary Mortgage Loan Act—6/8/99**

In this position statement, the Bureau considered whether a lender licensed or registered under the Secondary Mortgage Loan Act (SMLA) may charge a five percent loan processing fee on the full amount of the credit line under a home equity line of credit contract and include the processing fee in the principal balance of the loan. The Bureau stated that section 22(1)(c) does not distinguish between closed-end and open-end second mortgage loans. A licensed or registered lender, therefore, may charge a processing fee of up to

five percent of the amount of the home equity line-of-credit under the SMLA and may include the processing fee in the principal balance of the loan at the time of its execution.

### **Discount Points on Construction Loans—7/16/99**

In this letter, the Bureau stated that a lender qualified to use the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) preemption of state law restrictions on points set forth in the Michigan Usury Act may charge a borrower discount points in sufficient number to buy down the interest rate on a construction loan to zero per cent. Under the loan program, the discount points would be financed and the balance of the construction loan would be rolled into the permanent mortgage loan. The Bureau stated that a DIDMCA-qualified lender could make this type of loan but cautioned that a lender initiating such a loan program would be well-advised to consider the risk exposure associated with the absence of cash flow during the indefinite term of the interim financing.

### **Post-Assignment Security Interest in Real Property Under Motor Vehicle Sales Finance Act—11/4/99**

The Bureau issued this letter in response to a question asking whether a sales finance company licensed under the Motor Vehicle Sales Finance Act (MVSFA) offering a product enhancement to allow a customer to grant a security interest in his or her real property as additional security for

the customer's installment sale contract (contract) would be subject to certain regulatory requirements. In its response, the Bureau stated that the MVSFA does not permit a licensed sales finance company, as assignee, to amend an existing contract by adding collateral security in the form of a lien against real property. The Bureau argued that section 12(a) and (b) of the MVSFA require that an installment sale contract must "contain all of the agreements between the buyer and seller relating to the installment sale of the motor vehicle sold" and contain "all essential provisions" before it is signed by the buyer. The form of property securing a contract is an essential provision. The contract, therefore, must contain any security interest taken by the seller before it is signed and later assigned to a licensed finance company.

#### **Assignment Recording Fee Charged to Borrower—9/15/99**

In response to the question of whether a lender can charge the borrower an assignment recording fee on the HUD [settlement statement] as part of a second mortgage transaction, the Bureau stated that, under section 22(b) of the Secondary Mortgage Loan Act (SMLA), the fees and charges paid by the borrower must be incurred "in connection with the making, closing, disbursing, extending, readjusting, or renewing" of a secondary mortgage loan, i.e., the charges and fees must be related to some part of the transaction between the lender and borrower. The Bureau argued that since the assignment trans-

action does not involve the borrower, the assignment recording fees do not occur in the making, closing, disbursing, extending, readjusting, or renewing of loans.

#### **Applicability of Licensure Requirements to Foreign Industrial Loan Companies—10/1/99**

The Bureau was asked to determine whether the licensing and registration requirements of the Mortgage Brokers, Lenders and Servicers Licensing Act (MBLSLA) and the Secondary Mortgage Loan Act (SMLA) apply to a FDIC-insured California industrial loan company (California ILC).

Section 25(a) of the MBLSLA expressly exempts a depository financial institution from the act. Section 29 of the SMLA, on the other hand, states that the act does not apply to "a depository financial institution that is subject to other laws of this state, another state, or of the United States regulating the power of the depository financial institution to engage in secondary mortgage loan transactions." The Bureau stated that although a California ILC may be deemed to be a state bank under the Federal Deposit Insurance Act because of its deposit insurance, the MBLSLA specifically enumerates the institutions included within the definition of "depository financial institution." ILCs are not included within the definition. With regard to the SMLA, although the California ILC meets the definition of depository financial institution, it would not be able to take advantage of the section 29 exemption on transactions

permissible under Michigan law but not regulated under California law without first obtaining a license or registering under the SMLA.

## **BULLETIN**

### **MVSFA 99-001 (Negative Equity)—7/6/99**

After issuing its declaratory ruling stating that a dealer licensed under the Motor Vehicle Sales Finance Act could finance negative equity in connection with an installment sale of a motor vehicle, the Bureau, on July 6, 1999, issued a bulletin addressing how dealers could disclose negative equity on installment sale contracts. The bulletin stated that in an installment sale contract involving negative equity, licensees must disclose certain items including the amount of negative equity financed in the installment sale contract. Included with the bulletin was a sample disclosure showing one acceptable format of disclosing negative equity on an installment sale contract.

## **FEDERAL ISSUANCES**

### **FDIC Simplifies Deposit Insurance Rules for Joint and Payable-On-Death Accounts**

On March 23, 1999, the Federal Deposit Insurance Corporation (FDIC) announced that it had revised the deposit insurance regulations governing joint accounts and payable-on-death ("POD" or revocable trust) accounts. The revisions were intended to simplify the FDIC's regulations since consumers and bankers frequently misunderstood the existing regulations. Prior to the changes, calculation of FDIC

insurance coverage involved a two-step process. For step one, all joint accounts owned by the same combination of people at an insured institution were added together and insured up to \$100,000. Step two provided that each person's shares in all joint accounts at that same institution were added together and insured up to \$100,000. This meant that no one person's insured interests in joint accounts could exceed \$100,000. Thus, the insurance coverage for two people owning a \$200,000 joint account was \$100,000.

Under the new regulations, a person is insured up to \$100,000 in total for his or her share of any joint accounts at an insured institution even if one of those accounts has a balance exceeding \$100,000. Thus, if two people own a joint account amounting to \$200,000 each person is insured for \$100,000 on the joint account. A depositor's ownership in joint accounts is covered up to \$100,000 separately and in addition to the insurance available for other types of accounts, e.g., individual accounts, payable-on-death accounts, and retirement accounts.

On a payable-on-death account (commonly referred to as "POD," "In Trust For," or "Totten Trust" accounts), the depositor indicates that, upon his or her death, the funds will be payable to one or more named beneficiaries. The FDIC extended the list of qualifying beneficiaries from the owner's spouse, children, or grandchildren to include the depositor's parents and siblings. This means that a depositor who establishes a \$300,000 account



payable-on-death to a parent and two siblings will be insured up to the full amount on that account. The revisions took effect on April 1, 1999. The National Credit Union Administration adopted conforming changes, which took effect on April 22, 1999.

### **Federal Bank Regulators Withdraw Proposed “Know Your Customers” Regulations**

At hearings held in the first week of March, federal bank regulators announced that, in response to an unprecedented level of negative comment, they would withdraw their proposed “Know Your Customer” regulations. The proposed regulations, issued in late 1998 by the four federal bank and thrift regulators, were intended for banks and thrifts to establish formal “Know Your Customer” programs. Proponents of the proposed regulations saw them as an effort to help banks identify persons involved in money laundering. In the four-month comment period, the FDIC alone received over 254,000 letters protesting the proposed regulations and just 72 supporting them.

### **The Federal Reserve System Proposes Revisions to Official Staff Commentary of Regulation Z to Address “Payday Loans”**

On November 3, 1999, the Federal Reserve Board published proposed changes to the official staff commentary to clarify whether “payday loans” constitute credit for purposes of the Truth in Lending Act (TILA). The proposed revision clarifies that payday loan transactions constitute credit under

the TILA. Persons that regularly extend such loans and impose a finance charge are required to provide TILA disclosures to consumers.

### **House Banking Committee Rejects Exam Fees**

On February 25, 1999, the House Banking Committee met to consider budget items including a proposal to charge new federal examination fees for bank holding companies and state-chartered banks. The Committee again rejected imposition of the new fees as a “bad idea.”

### **Federal Regulators Issue Guidelines on Subprime Lending**

On March 3, 1999, the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision jointly issued Interagency Guidelines on Subprime Lending. The guidelines remind banks of the risks inherent in subprime lending and outline the types of controls the agencies expect banks to have in place before conducting this type of lending. Noting that some experienced non-bank subprime lenders had suffered losses in recent months, the guidelines cautioned that an economic downturn would affect subprime borrowers earlier and more severely than low risk borrowers. Management should evaluate whether embarking on this type of lending program would be prudent during the current phase of the economic cycle. Finally, the guidelines warned that the agencies might impose

---

higher minimum capital requirements on banks engaged in subprime lending and, if the risks are not properly controlled, the bank's lending program may be considered unsafe and unsound.

### **Securities and Exchange Commission (SEC) and Federal Bank Regulatory Agencies Attempt to Settle Dispute Over Loan Loss Reserves**

In 1999, the SEC and federal bank regulators attempted to promote a clearer understanding of loan loss reserves in order to end months of mixed and confusing signals. Positions taken by the SEC and the federal banking agencies on this subject have often been at odds. The dispute pits the SEC, which favors strict adherence to standards of the Financial Accounting Standards Board against the bank and thrift regulators, whose chief focus is to prepare for deteriorating loan quality and economic weakness. The SEC opposes use of loan loss reserves to manage earnings. Earnings management occurs when a bank builds up reserves during good economic times, which reduces reported earnings. The additional reserves serve as a funds source to be tapped during downturns to boost profits.

During the week of July 16, the SEC and the federal bank regulatory agencies released a joint letter to banks and thrifts summarizing principles relating to loan loss reserves. The federal agencies agreed that determining an appropriate allowance requires a high degree of management judgment and results in a range of estimated losses and prudent, conservative,

but not excessive, loan loss allowances that fall within a range of estimated losses are appropriate. A bank, in accordance with GAAP, should record its best estimate within the range of estimated losses. The agencies recognized that determining the allowance for loan losses is imprecise and that allowance estimates should be based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio. The loan loss allowance should consider all available information including industry, geographical, economic, and political factors.

### **Financial Crimes Enforcement Network Issues Money Services Business Regulations**

On August 18, 1999, the Treasury Department announced publication of a final regulation requiring that money services businesses (MSBs) register with its Financial Crimes Enforcement Network (FinCEN) in order to strengthen anti-money laundering controls within such businesses. MSBs, which include money transmitters, issuers, redeemers, and sellers of money orders and travelers checks, check cashers and currency retail exchangers, accounted for \$200 billion in financial transactions in 1996. These businesses are largely unregulated and, in some cases, have been used to launder large amounts of money from unlawful enterprises and evade the requirements of the Bank Secrecy Act.

The regulation requires that by December 31, 2001, MSBs register with the Department of Treasury and maintain a list of their agents for examination by any appropriate

law enforcement agency. Entities excluded from the regulation are depository financial institutions, parties that do not conduct money transmission services as a primary business activity, persons registered with and regulated by the SEC or the Commodity Futures Trading Commission, parties that conduct money services transactions in a dollar amount below \$1,000 daily, and persons which are issuers, sellers, or redeemers of stored value products.

### **SIGNIFICANT LITIGATION**

**Patrick M. McQueen v. Eugene A. Ludwig**, first discussed in the Bureau's 1996 Annual Report, was resolved in May when the United States Court of Appeals for the Sixth Circuit reversed the district court's decision and directed the lower court to grant summary judgment in favor of the Commissioner.

You may recall that in February, 1996 the Commissioner brought an action in Federal District Court challenging a decision of the Comptroller of the Currency that enabled Society Bank-Michigan concurrently to convert to a national bank, relocate its main office to Bronson, Michigan, and merge with Society National Bank-Indiana—and to retain all existing

branches and office locations of each of the constituent banks. The Commissioner contended that Society Bank's plan, and the OCC's permission to execute it, violated the National Bank Act, the McFadden Act, and branching provisions of the Riegle-Neil Act of 1995.

The District Court ruled that the National Bank Act did not require a converting bank to designate a particular location as its main office and did not require a bank to designate its principal office under state law as its main office. Since the statute does not address the issue, the Court viewed its task as limited to determining whether the Comptroller's interpretation was a reasonable interpretation of the statute and ruled that the Comptroller's decision was reasonable. The Bureau appealed the ruling to the United States Court of Appeals for the Sixth Circuit.

In overturning the District Court's ruling, the Sixth Circuit Court concluded, referring to the Comptroller's approvals: "The complex applications and master plan involved propose instantaneous steps and maneuvers that would equal the actions of a Fred Astaire or a Gene Kelley." The lower court was directed to grant summary judgment in favor of the Commissioner.

## OFFICE OF THE COMMISSIONER

Gary K. Mielock  
Acting Commissioner

Debra A. Smith  
Secretary to the  
Commissioner

Renee J. Ortlieb  
Assistant to the  
Commissioner  
and Public  
Information Officer

Gary K. Mielock  
Chief Deputy  
Commissioner

Cynthia C. Peto  
Secretary to the  
Chief Deputy  
Commissioner

Richard D. Lavolette  
Administrative Law  
Specialist

Joseph E. Petterson  
Risk Manager

Alan J. LaVigne  
Student Assistant

The Commissioner of the Financial Institutions Bureau is appointed by the Governor with the advice and consent of the Senate and serves at the pleasure of the Governor under the provisions of the Michigan Banking Code of 1969, as amended. The Commissioner is assisted by a chief deputy commissioner and six directors (see organization chart on page 21).

The Office of the Commissioner is responsible for establishing the overall policy, direction and daily operations of the Bureau. These responsibilities include public information and media relations, strategic planning, performance measures, ethics, audits and vulnerability assessments, risk management, Freedom of Information Act requests, administrative hearings, and publications, including the Bureau's Web page.

### FREEDOM OF INFORMATION

The Office of the Commissioner has the responsibility for responding to requests made to the Bureau for copies of public records under the Michigan Freedom of Information Act, 1976 Public Acts No. 422, as amended. During 1999, the Office of the Commissioner responded to 135 requests for copies of public documents.

### ADMINISTRATIVE HEARINGS

The Office of the Commissioner provides hearing services for conducting the Bureau's administrative hearings and related matters pursuant to the Administrative Procedures Act, 1969 Public Act No. 306, as amended, and relevant regulatory statutes.

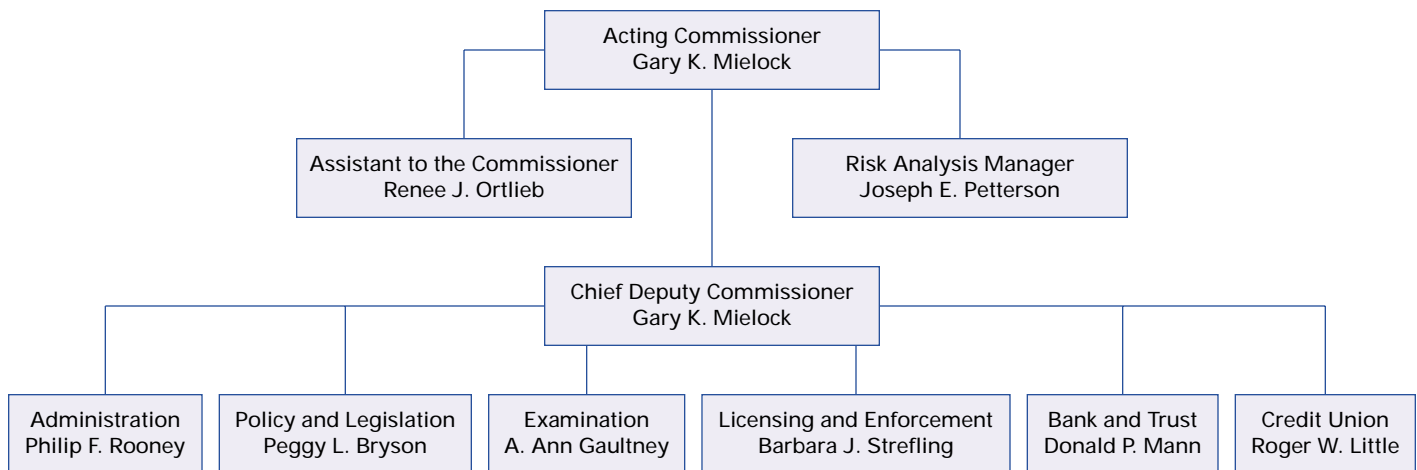
In 1999, the Bureau received 4 requests for hearings. Three of the requests involved the revocation of licenses to conduct business under the Mortgage Brokers, Lenders, and Servicers Licensing Act. Each of these matters was continued into 2000 while prehearing conferences were conducted in 2 of the cases.

The fourth request for a hearing involved the denial of an application under the Mortgage Brokers, Lenders, and Servicers Licensing Act and a registration under the Secondary Mortgage Loan Act. This matter was continued into 2000.

Also, the Bureau issued 28 Notices of Hearing under its own authority pursuant to the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act. Hearings in these cases were conducted in late 1999. Ten of the cases were resolved by Stipulation and Consent Order, and 4 cases were dismissed during the year. The remaining 14 cases were continued into 2000.

In addition, a case involving the denial of an application under the Mortgage Brokers, Lenders, and Servicers Licensing Act that had been continued from 1998 to 1999 was resolved during the year by Stipulation and Consent Order.

Finally, a case from 1995 involving a Cease and Desist Order issued pursuant to the Banking Code of 1969 was continued to 2000. A series of continuances were issued in this matter to allow the commissioner the opportunity to litigate certain related issues with the Comptroller of the Currency. The United States Court of Appeals Sixth Circuit decided the matter between the Commissioner and the Comptroller of the Currency during the year.





## POLICY AND LEGISLATION DIVISION



Peggy L. Bryson  
Deputy Commissioner

DJ Culkar  
Administrative Law  
Specialist

Russell E. LaCoursier  
Economic Specialist

Debra A. Cutshaw  
Executive Secretary

The Policy and Legislation Division is charged with providing research, information, and recommendations on financial services issues, legislative support, and other services to assist regulatory divisions and agency executives in setting policy and supervising financial institutions. The division coordinates the Bureau's consumer complaint handling, promulgates rules, analyzes legislation, drafts proposed legislation to address perceived needs, and compiles and disseminates information on current issues facing financial institutions, consumers of financial services, and financial regulators. It also enforces the Mortgage Anti-Redlining Act (1977 Public Act No. 135).

In 1999, the unit focused much of its attention on supporting the Bureau's legislative program. Its efforts to modernize Michigan's Banking Code of 1969 and the Consumer Financial Services Act were concluded with the Governor's signing of Public Acts 276 and 275, respectively, of 1999. The unit continued work on recommendations to strengthen the commissioner's enforcement tools under several licensing laws. Currently, some of the licensing laws do not authorize the commissioner to issue cease and desist or summary suspension orders. The Bureau is recommending amendments to the Consumer Financial Services Act, the Mortgage Brokers, Lenders and Servicers Licensing Act, the Secondary Mortgage Loan Act, the Regulatory Loan Act of 1963, and the Sale of Checks Act to allow the commissioner to bar persons who engage in fraud from being involved in any way in these businesses. The Bureau is proposing repeal of the annual filing of the affidavit of compliance with the Federal Home Mortgage Disclosure Act required by the Anti-Redlining Act. The unit completed the process of promulgating an amendment to the Secondary Mortgage Loan Act rules, a change necessitated by amendments to the act in 1997.

The division monitors trends in consumer complaints regarding financial institutions and represents the agency on the Senior Exploitation Quick Response Task Force and a multi-agency consumer assistance network. Division staff also assists regulatory units with development of enforcement actions and interpretations of state law.

## BANK & TRUST DIVISION



Donald P. Mann  
Deputy Commissioner

Carolyn E. Such  
Secretary to Deputy  
Commissioner

William L. Pilkington  
Assistant Director,  
Examination Unit

Allie M. Jones  
Secretary to  
Assistant Director

Darwyn V. Sanborn  
Assistant Director,  
Corporate Regulatory  
Services Unit

Cathy J. Marolf  
Secretary to  
Assistant Director

Steven D. Cutshaw  
Corporate Specialist

Linda K. Hansen  
Corporate Specialist

Sandra I. Slee  
Corporate Specialist

### AUTHORITY

The Bank & Trust Division is primarily responsible for regulating and supervising Michigan's state-chartered banks under authority of Act 319 of the Public Acts of 1969 (the Michigan Banking Code of 1969), as amended; savings banks, pursuant to Act 354 of the Public Acts of 1996 (the Michigan Savings Bank Act); and Business and Industrial Development Corporations (BIDCOs), pursuant to Act 89 of the Public Acts of 1986 (the Michigan BIDCO Act). In addition to depository institutions and BIDCOs, the division was previously responsible for examination and supervision of safe deposit and collateral deposit businesses. However, with the passage of the banking code of 1999, this responsibility ceases effective March 1, 2000.

The division ensures that Michigan's state-chartered banks, savings banks, and BIDCOs are operating safely and soundly, that public confidence in the system is maintained, and that the interests of depositors, creditors and shareholders are protected. As of December 31, 1999 there were 140 state-chartered banks with consolidated assets of approximately \$105.4 billion; 7 savings banks with consolidated assets of approximately \$4.3 billion; and 6 BIDCOs with approximately \$58.8 million in consolidated assets.

In addition to the examination and supervision program, the division is responsible for processing applications for new state-chartered financial institutions, approving and facilitating changes in corporate structure, and administering capital augmentation efforts of state-chartered financial institutions. The program ensures that applications for new charters, changes in corporate structure, and capital enhancements are consistent with sound business practices, applicable laws and regulations, and Bureau and Department policies.

## PERSONNEL AND TRAINING

The division, headed by Deputy Commissioner Donald P. Mann, is comprised of well-trained, experienced, professional examiners and office staff. Assistant Director William L. Pilkington oversees examination and supervision activities, with a staff of five supervisors and 34 field examiners. Assistant Director Darwyn V. Sanborn oversees corporate activities, with a staff of three corporate specialists.

During 1999, every member of the division's staff attended at least one training and/or professional development class or seminar. Areas of training included Year 2000 (Y2K), trust, capital markets, lending, risk management, international banking, white collar crime, and emerging issues affecting community and multinational banking. Several division examiners also attended graduate schools of banking held at various universities.

On April 28, 1986, the division received recognition of its competence and capability when it became accredited under the Conference of State Bank Supervisors' (CSBS) Accreditation Program. The division was among the first state banking agencies to receive accreditation. The division was re-accredited on February 9, 1993, and again on June 8, 1998.

## EXAMINATION AND SUPERVISION

The Michigan Banking Code of 1969 and the Michigan Savings Bank Act require that

each state-chartered bank and savings bank receive an annual examination. In fulfilling this requirement, the Bureau may use an examination made pursuant to the Federal Reserve Act or the Federal Deposit Insurance Act. All state-chartered banks, savings banks and BIDCOs were examined at least once during 1999 by representatives of either the division, the Federal Deposit Insurance Corporation, or the Federal Reserve Banks of Chicago or Minneapolis. The division also conducted 19 trust examinations and made 68 on-site visitations. As of December 31, 1999, there were two (2) banks on the division's "problem bank" list; no savings banks on the "problem" list; and one (1) BIDCO on the "problem" list.

The Bank & Trust Division continued employing risk-based supervisory strategies in 1999. All banks were monitored quarterly through review of uniform bank performance reports, other call report generated information, and specifically requested data. New institutions, problem institutions, and institutions with volatile risk profiles received quarterly visitations.

Large and higher risk institutions were generally reviewed jointly or concurrently with the federal agencies. Regardless of the nature of examination, examination results were shared between agencies and comprehensive supervisory strategies were jointly developed and employed.

Pre-examination request letters were tailored to information needs determined by



the Examiner-In-Charge in assessing each institution's risk profile. At the conclusion of each examination, examiners met with senior management to review findings. As necessary or requested, division management and examiners-in-charge met with Boards of Directors to review examination findings and determine appropriate management action.

## YEAR 2000

Throughout 1999, the division, in cooperation with various federal agencies, engaged in assessing the Y2K preparedness of Michigan's state-chartered banks, savings banks and BIDCOs. Division personnel participated in periodic meetings with representatives of the FDIC, the Federal Reserve Banks of Chicago and Minneapolis, and the Comptroller of the Currency to discuss and plan Y2K initiatives. All institutions under supervision were prepared for the century date change, and there were no disruptions in financial services.

## CORPORATE CHANGES

As of December 31, 1999, there were 176 commercial banks operating in the State of Michigan; 140 or 79.5% of which were state-chartered banks. In addition to commercial banks, there were 23 savings banks and/or savings and loan associations operating in Michigan at year-end; seven (7), or 30.4% were state-chartered. During 1999 seven (7) new banks were chartered, reflecting a 5.3% increase in the number of state-chartered banks. In addi-

tion to the de novo bank activity, three (3) federal savings banks converted to state-charter, resulting in a 40% increase in the number of state-chartered savings banks.

## INDUSTRY ASSOCIATIONS

The division has had a long standing relationship with various trade associations, including the Michigan Bankers Association (MBA), the Michigan Association of Community Bankers (MACB), the Michigan League of Community Bankers (Michigan League) and the Conference of State Bank Supervisors (CSBS). Division personnel have attended numerous industry-related functions during 1999. Division representatives have also spoken at various trade association functions on a variety of topics affecting the industry, including presentations at the Robert M. Perry Schools of Banking at Central Michigan University. Additionally, division personnel, along with senior Bureau management regularly attend the MBA annual convention and bank management conference; the MACB annual convention; the Michigan League annual convention; and the CSBS annual meeting and deputy seminars.

## FINANCIAL TRENDS

As of year-end 1999, state-chartered commercial banks posted total consolidated assets of \$105.4 billion, representing a 5.9% increase over year-end 1998 totals. State-chartered savings banks posted total consolidated assets of \$4.3 billion. Asset quality at commercial and savings

banks remained good. Total past due loans for commercial and savings banks amounted to \$1.4 billion, or 1.7% of total loans, while net loan losses amounted to only 0.3% of total loans.

Michigan's commercial banks and savings banks continue to benefit from prudent management and a strong economic environment. As of year-end 1999 net consolidated income for state-chartered commercial banks amounted to \$1.6 billion, a 16.8% increase over year-end 1998 totals. The aggregate return on average assets for state-chartered commercial banks was 1.59%. State-chartered savings banks reported an aggregate net income of \$18 million for 1999, representing a 41.9% decrease over year-end 1998 totals. The aggregate return on average assets for savings banks was 0.45%.

Aggregate equity capital in Michigan's state-chartered banks and savings banks amounted to \$8.8 billion and \$343 million, respectively. This represents a 7% increase over year-end 1998 totals for commercial banks, and a 46% increase for savings institutions.

As of December 31, 1999, BIDCOs posted total consolidated assets of \$58.8 million, representing a 25.7% decrease from year-end 1998 totals. There were 136 total provisions of financing assistance out-

standing at year-end 1999, reflecting a 26.5% decrease over year-end 1998 totals.

## LOOKING FORWARD

During 2000, the division will continue to provide the highest quality service to the industries we regulate. Division personnel are executing plans for risk-based supervision in 2000 and beyond. The alternating examination program will continue and traditional safety and soundness examinations will be streamlined for institutions that perform well and are financially sound.

Every bank, trust department, savings bank, and BIDCO has been assigned to individual examiners. These examiners, called Central Points of Contact (CPC), will be responsible for coordinating the regulatory oversight of a portfolio of two to eight institutions. Managers of financial institutions regulated by the division should familiarize themselves with the CPC of their institution. The CPC concept will provide directors and officers a consistent and familiar regulatory contact responsible for designing a regulatory strategy based on the risk profile of each institution.

## INTERNET ACCESS

Further information regarding division services may be found on the Bureau's internet site at <http://www.cis.state.mi.us/fib/>.



## CONSOLIDATED BALANCE SHEET OF STATE BANKS AS OF DECEMBER 31 (IN MILLIONS)

	140 Banks December 31, 1999	133 Banks December 31, 1998	Percentage Increase (Decrease)
<b>ASSETS</b>			
Cash and balances due from depository institutions	\$ 4,622	\$ 5,395	(14.33%)
Securities	14,541	14,280	1.83%
Federal funds sold and securities purchased under agreements to resell	1,204	1,541	(21.87%)
Net loans and leases	79,419	72,785	9.11%
Assets held in trading accounts	72	498	(85.54%)
Premises and fixed assets (including capitalized leases)	1,330	1,295	2.70%
Other real estate owned	54	43	25.58%
Investments in unconsolidated subsidiaries and associated companies	55	57	(3.51%)
Customers' liability on acceptances executed and outstanding	50	24	108.33%
Other assets (incl. Intangibles)	4,038	3,641	10.90%
Total Assets	\$105,385	\$ 99,559	5.85%
<b>LIABILITIES</b>			
Total deposits	\$ 74,641	\$ 73,732	1.23%
Federal funds purchased and securities sold under agreements to repurchase	4,488	7,204	(37.70%)
Other Borrowed money with maturities of less than 1 year	11,281	4,379	157.62%
Other borrowed money with maturities of more than 1 year	2,578	2,927	(11.92%)
Notes and debentures subordinated to deposits	1,799	1,811	(0.66%)
Acceptances and Other liabilities	1,763	1,252	40.81%
Total Liabilities	\$ 96,550	\$ 91,305	5.74%
<b>EQUITY CAPITAL</b>			
Perpetual preferred stock	\$ 5	\$ 5	N/C
Common stock	483	475	1.68%
Surplus	3,616	3,261	10.89%
Undivided profits and capital reserves	4,731	4,513	4.83%
Total Equity Capital	\$8,835	\$8,254	7.04%
Total Liabilities and Equity Capital	\$105,385	\$ 99,559	5.85%

# CONSOLIDATED STATEMENT OF INCOME OF STATE BANKS

## YEAR ENDED DECEMBER 31 (IN MILLIONS)

### SOURCES AND DISPOSITION OF INCOME

	1999	1998	Percentage Increase (Decrease)
<b>INTEREST INCOME:</b>			
Interest and fee income on loans	\$ 6,377	\$5,960	7.00%
Interest income on balances due from depository institutions	7	8	(12.50%)
Interest and dividend income on securities	976	919	6.20%
Interest income from assets held in trading accounts	2	2	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	88	91	(3.30%)
Total interest income	\$ 7,450	\$6,980	6.73%
<b>INTEREST EXPENSES:</b>			
Interest on deposits	\$ 2,297	\$2,328	(1.33%)
Expense of federal funds purchased and securities sold under agreements to repurchase	331	286	15.73%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	560	505	10.89%
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	111	95	16.84%
Total interest expense	\$ 3,299	\$3,214	2.64%
Net interest income	\$ 4,151	\$3,766	20.45%
LESS: Provision for loan and lease losses	237	253	(6.32%)
Noninterest income	2,181	1,902	14.67%
Gains (losses) on securities not held in trading accounts	7	25	(72.00%)
<b>NONINTEREST EXPENSES</b>			
	\$ 3,563	\$3,353	6.26%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 2,539	\$2,087	21.66%
LESS: Applicable income taxes	909	697	30.42%
Income (loss) before extraordinary items and other adjustments	1,630	1,390	17.27%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 1,630	\$1,390	17.27%

## CONSOLIDATED BALANCE SHEET OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

	7 Savings Banks December 31, 1999	5 Savings Banks December 31, 1998	Percentage Increase (Decrease)
<b>ASSETS</b>			
Cash and balances due from depository institutions	\$ 251	\$ 100	151.00%
Securities	317	193	64.25%
Federal funds sold and securities purchased under agreements to resell	97	0	970.00%
Net loans and leases	3,498	2,487	40.65%
Assets held in trading accounts	0	0	N/C
Premises and fixed assets (including capitalized leases)	63	45	40.00%
Other real estate owned	3	2	50.00%
Investments in unconsolidated subsidiaries and associated companies	16	0	160.00%
Customers' liability on acceptances executed and outstanding	0	0	N/C
Other assets (incl. Intangibles)	69	45	53.33%
Total Assets	\$4,314	\$ 2,872	50.21%
<b>LIABILITIES</b>			
Total deposits	\$3,041	\$ 2,116	43.71%
Federal funds purchased and securities sold under agreements to repurchase	4	2	100.00%
Other borrowed money with maturities of less than 1 year	488	194	151.55%
Other borrowed money with maturities of more than 1 year	402	303	32.67%
Notes and debentures subordinated to deposits	0	0	N/C
Acceptances and Other liabilities	36	22	63.64%
Total Liabilities	\$3,971	\$ 2,637	50.59%
<b>EQUITY CAPITAL</b>			
Perpetual preferred stock	\$ 29	\$ 0	290.00%
Common stock	3	1	200.00%
Surplus	153	118	29.66%
Undivided profits and capital reserves	158	116	36.21%
Total Equity Capital	\$ 343	\$ 235	45.96%
Total Liabilities and Equity Capital	\$4,314	\$ 2,872	50.21%

# CONSOLIDATED STATEMENT OF INCOME OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

## SOURCES AND DISPOSITION OF INCOME

	1999	1998	Percentage Increase (Decrease)
<b>INTEREST INCOME:</b>			
Interest and fee income on loans	\$ 271	\$ 195	38.97%
Interest from lease financing receivables	0	0	N/C
Interest income on balances due from depository institutions	2	3	(33.33%)
Interest and dividend income on securities	38	12	216.67%
Interest income from assets held in trading accounts	0	0	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	1	0	100.00%
Total interest income	\$ 312	\$ 210	48.57%
<b>INTEREST EXPENSES:</b>			
Interest on deposits	\$ 122	\$ 91	34.07%
Expense of federal funds purchased and securities sold under agreements to repurchase	1	0	100.00%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	50	28	78.57%
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	0	0	N/C
Total interest expense	\$ 173	\$ 119	45.38%
Net interest income	\$ 139	\$ 91	52.75%
LESS: Provision for loan and lease losses	13	3	333.33%
Noninterest income	35	29	20.69%
Gains (losses) on securities not held in trading accounts	- 8	7	(214.29%)
<b>NONINTEREST EXPENSES</b>			
	\$ 128	\$ 76	68.42%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 25	\$ 48	(47.92%)
LESS: Applicable income taxes	7	17	(58.82%)
Income (loss) before extraordinary items and other adjustments	18	31	(41.94%)
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 18	\$ 31	(41.94%)

## BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS (BIDCOs)

	12/31/99	12/31/98
Licensees	7	8
Licensees Examined	7	8
Provisions of financing assistance to agriculture firms	0	0
Financing assistance to agriculture firms	0	0
Provisions of financing assistance to mining firms	0	1
Financing assistance to mining firms	0	0
Provisions of financing assistance to construction businesses	0	0
Financing assistance to construction businesses		
Provisions of financing assistance to manufacturing businesses	5	19
Financing assistance to manufacturing business	\$ 2,630,000	\$ 7,206,264
Provisions of financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	1	0
Financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	\$ 400,000	0
Provisions of financing assistance to wholesale trade businesses	0	3
Financing assistance to wholesale trade businesses	0	\$ 1,700,000
Provisions of financing assistance to retail trade businesses	0	3
Financing assistance to retail trade businesses	0	\$ 720,000
Provisions of financing assistance to finance, insurance and real estate businesses	0	2
Financing assistance to finance, insurance, and real estate businesses	0	\$ 1,300,000
Provisions of financing assistance to service businesses	1	12
Financing assistance to service businesses	\$ 150,000	\$ 7,635,000
Provisions of financing assistance to nonclassifiable establishments	0	1
Financing assistance to nonclassifiable establishments	0	\$ 328,000
Total financings for period	7	40
Total financing assistance for the period	\$ 3,180,000	\$ 18,889,264
Total provisions of financing assistance currently outstanding or committed	136	185
Total financing assistance currently outstanding	\$50,095,896	\$ 72,590,520
Provisions of financing assistance to minority-owned business firms	0	2
Financing assistance to minority-owned business firms	0	\$ 1,450,000
Provisions of financing assistance to women-owned business firms	0	0
Financing assistance to women-owned business firms	0	0
Estimated number of jobs created or retained*	196	1,184

\*Estimates provided by licensees.



# 1999 BANK AND TRUST DIVISION

## REGIONS AND FIELD PERSONNEL

### EAST REGION

Gary L. Thielsen, Regional Supervisor  
Thomas J. Battle  
Kathleen M. Billmeier  
James H. Brown II  
C. Terry Callahan  
Roger A. Lonsway  
Shelley L. McCarthy  
Kevin J. Pantera  
John Schumacher  
Susan A. Stieber  
Chris Werwega

### CENTRAL REGION

Curtis B. McMillin, Regional Supervisor  
Robert G. Caruso  
Gail A. Donovan  
Patrick A. Holleran  
Kirt L. Gundry  
John J. Kolhoff  
Karen K. Lawson  
Patrick J. Lynch  
Kathleen M. McDevitt  
Charles J. Scott

### WEST REGION

Stephen F. Trembath, Regional Supervisor  
Rae L. Farris  
Connie Gorsline  
Donald J. Hermann  
Karl J. Johnson  
Charlie L. Kohler  
Michael E. Mead  
Bruce Ohland  
Peter R. Oquist  
Judy I. Ritter  
Sheila J. Vigh

### UPPER PENINSULA REGION

Gary D. Groves, Regional Supervisor  
John M. Lyle  
David J. Theoret  
Larry Woukko

### TRUST ACTIVITIES UNIT

Michael J. Anderson, Supervisor  
Walter P. Baier  
Michael J. Friedrich

## CREDIT UNION DIVISION



Roger W. Little  
Deputy Commissioner

Tim C. Standfest  
Assistant Director

Paul A. Tautkus  
Assistant Director

Debra S. Hallenbeck  
Senior Review  
Examiner

Sharon M. Long  
Executive Secretary to  
Deputy Commissioner

Esther Torres  
Examinations Secretary

### AUTHORITY

The Credit Union Division regulates and supervises state-chartered credit unions under the authority of the Michigan Credit Union Act (Public Act No. 285 of 1925). The division's primary goal is ensuring that state-chartered credit unions operate safely and soundly, and in compliance with state and federal statutes.

### PERSONNEL AND TRAINING

Deputy Commissioner Roger Little directs a division comprised of a highly trained, professional staff of examiners and office employees. The division has two distinct units. One of these is responsible for Corporate Activities and Automated Systems Examinations. It has two examiners and is managed by Assistant Director Paul Tautkus. The other unit is managed by Assistant Director Tim Standfest and is responsible for Examination Activities. This unit has 24 examiners, plus five regional supervisors.

Credit Union Division management continues to provide extensive training and professional development to its employees. In 1999, division management and staff attended training sessions sponsored by both the National Credit Union Administration (NCUA) and the National Association of State Credit Union Supervisors (NASCUS). These sessions provided up-to-date training on examination issues such as Y2K compliance, current and emerging issues, investments, consumer and real estate lending, fraud detection, and effective problem resolution. They also afforded an exchange of ideas and experiences with examiners from outside Michigan.

In March 1999, all division examiners and supervisors attended a writing class presented by Dr. Tom Murawski, a nationally-recognized expert on writing techniques. Because our product

---

is essentially narrative, we continue to strive for improvement in written communications.

The division held a week-long training conference for its examiners and supervisory staff in Saginaw during October 1999. Topics included electronic and home banking, bankruptcy reform, prompt corrective action (see "Emerging Issues"), and the Community Reinvestment Act.

## EXAMINATION AND SUPERVISION

The division's goal is to perform an annual examination of 100% of our state-chartered credit unions. We met the goal in 1999, examining all 301 credit unions (including Central Corporate Credit Union). Examiners also performed 39 interim contacts at credit unions exhibiting problem areas. In addition to on-sight contacts, supervision occurred via monthly reporting to assigned examiners.

The division's approach to examination is "risk-based." Each Examiner-in-Charge determines the scope at the onset of the examination, based on the perceived risk inherent in the credit union's operation. Factors involved in the scope determination include, but are not limited to: prior examination findings and ratings; perceived quality and stability of management; the complexity of the credit union's product offerings; results of the annual comprehensive audit; and information provided by management on the "pre-examination survey."

The division continues to use the CAMEL rating system, which assigns ratings for Capital, Asset Quality, Management, Earnings and Liquidity. These areas receive a rating of 1 (best) to 5 (worst). A composite rating derives from the component ratings, and examiners' overall assessment of risk.

Credit unions which receive a CAMEL composite of "3" or below must submit monthly reports to their assigned examiners. Examiners compile and analyze the information. FIB management reviews and coordinates supervision efforts.

Communicating findings to management is an integral part of the examination. An exit conference occurs at the conclusion of examination fieldwork. For problem credit unions, (those rated CAMEL composite "3" or below), we request the attendance of key officials at the exit conference. We also discuss our findings with the entire Board of Directors at a meeting subsequent to their receipt of the examination report. We believe this contact aids communication of the problem areas, and hastens resolutions. In 1999, we met with 28 boards of directors.

We continued to work cooperatively with the NCUA. The NCUA is responsible for the safety and soundness of the National Credit Union Share Insurance Fund, to which all Michigan state-chartered credit unions belong. The NCUA performs insurance-risk reviews in coordination with

annual examinations and interim regulatory contacts. Our supervisory and administrative personnel meet with their NCUA counterparts quarterly to discuss problem credit unions' progress, and schedule joint contacts.

The overall condition of Michigan state-chartered credit unions remained strong in 1999. However, some credit unions suffered from poor earnings, high loan delinquency, high loan losses, declining capital, or a combination of these impairments. These negative indicators were usually the result of poor management, or decisions made without sufficient research and planning. The number of problem credit unions increased 25% in 1999, while the amount of total credit union assets in problem credit unions increased 19%. At year-end, the percentage of total credit union assets in problem credit unions was 11%, up slightly from 1998's 10%.

## Y2K DILIGENCE

The division devoted considerable resources in 1999 to Y2K issues. Assistant Director Tautkus and his crew of Automated Systems examiners were responsible for overseeing Y2K compliance. Throughout 1999, Mr. Tautkus and staff monitored quarterly self-evaluation forms from credit unions, and transmitted readiness information to the NCUA. They also evaluated each credit union's Y2K-readiness checklist prepared during the annual examination. The Automated Systems examiners contacted institutions

which exhibited potential problems, and offered guidance for correcting those problems. They also conducted Y2K-readiness evaluations of major credit union data processing vendors. Whenever potential problems were apparent, swift action was taken to ensure no interruption of vital processing needs.

Partially as a result of the hard work and diligence by Assistant Director Tautkus and his crew, and our staff of field examiners, Michigan credit unions experienced no significant computer-related problems associated with the changeover from 1999 to 2000.

## CORPORATE CHANGES

The 301 Michigan state-chartered credit unions at December 1999 represent a 5% decrease from the 316 in existence at December 1998. During 1999, 11 credit unions merged into other state-chartered credit unions, and 4 credit unions merged into federally-chartered credit unions. Mergers usually occur when a credit union's management is unwilling or unable to bring about changes necessary to operate the credit union in a safe and sound manner. Larger, well-operated credit unions can absorb troubled credit union's assets, liabilities and capital. In most cases, the result for the members of the merged credit union is an increase in the number of financial services available.

Several credit unions amended their bylaws in 1999. Bylaw amendments are

available to fit the needs of individual credit unions. The most common type of amendment continued to be field-of-membership expansion.

## INDUSTRY ASSOCIATIONS

The division continues to work cooperatively with trade associations and professional organizations devoted to the benefit of the credit union industry. As part of our commitment we sent representatives to industry-related functions in 1999. Senior division staff members were featured speakers on various topics for meetings of the Michigan Association of Credit Unions and the Michigan Credit Union League. Deputy Commissioner Little and Assistant Director Tautkus appeared on several televised forums discussing the impact of Y2K on financial institutions.

The division remains closely involved with NASCUS. NASCUS promotes the dual chartering system, and the autonomy of state regulatory agencies. Deputy Commissioner Little serves on the NASCUS Board of Directors, and is active in policy formulation. During 1999, the division was subject to a comprehensive five-year re-accreditation by NASCUS. The re-accreditation involved extensive self-evaluation, prepared by examination and supervisory staff, and on-site review of the division's operation by NASCUS representatives. The division received unqualified approval of its operation during the accreditation. Michigan's Credit Union Division was the first state regulatory

authority to receive NASCUS accreditation, in 1989, and we remain committed to the high ideals for which it stands.

Division management continued to meet semi-annually with the Credit Union Advisory Council. We established the Advisory Council to foster better communication between the FIB and its regulated credit unions. The council is comprised of 12 credit union executives and a volunteer credit union official. At the 1999 meetings, topics included Y2K preparedness, risk-based lending, ACH issues, prompt corrective action (see "Emerging Issues"), proposed rule changes, and predatory lending practices.

## FINANCIAL TRENDS

Michigan state-chartered credit unions experienced moderate asset growth of 5% in 1999. Loans outstanding increased by more than 9%, while investment balances decreased by more than 25%. As a result, the aggregate Loans to Assets ratio increased from 61% at year-end 1998 to 64% at year-end 1999. The aggregate Return on Assets decreased from 1998's 0.96% to 0.87%. The aggregate level of capital to assets increased slightly, from 11.46% to 11.51%.

## EMERGING ISSUES

Future regulatory issues include home banking, and the security and disclosure requirements demanded by this emerging technology. We also continue to monitor credit unions' experience with risk-based



---

lending, which assigns interest rates based on objective, measurable risk.

Part of H.R. 1151, the Credit Union Membership Access Act enacted in 1998, is “prompt corrective action,” or PCA. PCA refers to the regulatory remedies required if a credit union’s net worth to assets ratio falls below a prescribed level. Although the basic components of PCA are in place, their application has yet to be finalized, with implementation taking effect August 7, 2000.

## INFORMATION

Visit our Web page at

*<http://www.cis.state.mi.us/fib/>*

The Web site contains credit union listings (by name and by city), statutes, rules, bylaws, bulletins, forms, applications, and answers to frequently asked questions.

# CONSOLIDATED BALANCE SHEET OF STATE-CHARTERED CREDIT UNIONS

(EXCLUDES CENTRAL CORPORATE CREDIT UNION) (000's OMITTED)

	December 31, 1999	December 31, 1998	Percent Increase (Decrease)
<b>ASSETS</b>			
Loans			
Unsecured/Credit Card/Lines of Credit	\$ 1,318,072	\$ 1,302,690	1.18%
Vehicle	2,862,187	2,680,686	6.77
Real Estate	3,379,161	2,824,129	19.65
Other	593,459	581,058	2.13
Allowance for Loan Losses	(57,681)	(57,128)	0.97
Investments			
U.S. Government Obligations and Federal Agency Securities	756,552	663,662	14.00
Corporate Credit Unions	390,952	1,454,248	(73.12)*
Other Credit Unions	26,001	18,427	41.10
Commercial Banks, Savings and Loans, and Mutual Savings Banks	384,973	544,950	(29.36)
Mutual Funds and Common Trust Investments	48,639	45,768	6.27
NCUA Share Insurance Capitalization Deposit	101,085	90,871	11.24
Other	1,332,869	1,240,451	7.45
Cash and Cash Equivalents	1,118,390	301,881	270.47*
Net Fixed Assets	290,949	260,894	11.52
Other Assets	157,587	146,794	7.35
Total Assets	\$12,703,194	\$ 12,099,381	4.99%
<b>LIABILITIES AND EQUITY</b>			
Liabilities			
Notes Payable	\$ 89,199	\$ 39,125	127.98
Accrued Dividends/Interest Payable	33,365	31,453	6.08
Other Liabilities	73,838	75,660	(2.41)
Savings			
Regular Shares	3,805,770	3,779,604	0.69
Share Drafts	1,384,452	1,319,045	4.96
Money Market Shares	2,108,363	1,853,884	13.73
Share Certificates	2,394,165	2,297,391	4.21
IRA/KEOGH	877,481	864,234	1.53
Other	475,043	452,458	4.99
Equity			
Regular Reserves	429,005	394,569	8.73
Investment Valuation Reserve	6,967	559	1,146.33
Accumulated Unrealized Gains (Losses) on Available for Sale Securities	454	30,625	(98.52)
Other Reserves	215,043	207,262	3.75
Undivided Earnings	810,049	753,512	7.50
Total Liabilities and Equity	\$12,703,194	\$ 12,099,381	4.99%

\*Reporting change for 1999: reclassified interest-bearing daily accounts as cash in accordance with generally-accepted accounting principles.

## CONSOLIDATED STATEMENT OF OPERATIONS OF STATE-CHARTERED CREDIT UNIONS (EXCLUDES CENTRAL CORPORATE CREDIT UNION) (000's OMITTED)

	1999	1998	Percent Increase (Decrease)
Operating Income			
Interest on Loans	\$660,042	\$639,102	3.28%
Less: Interest Refunded	(3,619)	(3,225)	12.22
Income from Investments	229,285	220,875	3.81
Fee Income	74,767	66,481	12.46
Other Operating Income	25,969	22,638	14.80
Total Operating Income	986,464	945,871	4.29
Cost of Funds			
Dividends	187,593	174,173	7.70
Interest on Deposits	209,292	212,702	(1.60)
Interest on Borrowings	2,371	1,772	33.80
Total Cost of Funds	399,256	388,647	2.73
Net Margin	587,208	557,224	5.38
Operating Expenses			
Employee Compensation and Benefits	207,249	192,497	7.66
Cost of Space	31,342	27,572	13.67
Office Operations Expense	106,387	94,730	12.31
Professional and Outside Services	34,109	35,565	(11.56)
Operating Fees	4,266	4,284	(0.42)
Other Operating Expense	66,451	59,432	11.81
Provision for Loan Losses	30,655	34,663	(11.56)
Total Operating Expenses	480,459	448,743	7.07
Net Operating Income	106,749	108,481	(1.60)
Non-Operating Gains	1,378	2,047	(32.68)
Net Earnings	108,127	110,528	(2.17)%

## SIGNIFICANT DATA AND FINANCIAL RATIOS OF STATE-CHARTERED CREDIT UNIONS (EXCLUDES CENTRAL CORPORATE CREDIT UNION)

	1999	1998	1997	1996	1995
<b>SIGNIFICANT DATA</b>					
Number of credit unions	300	315	320	323	334
Number of credit union members	2,566,542	2,516,915	2,445,380	2,412,073	2,377,955
Total assets*	\$12,703,194	\$12,099,381	\$10,795,308	\$10,021,691	\$9,403,097
Total loans outstanding*	8,152,878	7,388,563	6,884,814	6,269,436	5,716,202
Total shares and deposits*	11,045,273	10,566,616	9,388,617	8,765,771	8,259,599
Amount of loans granted during year*	4,401,071	4,214,076	3,769,350	3,536,764	3,100,613
*(000's omitted in dollar amounts)					

### SIGNIFICANT RATIOS

Net Equity/Total Assets	11.51%	11.46%	11.73%	11.28%	10.78%
Delinquent Loans/Total Loans	0.77	0.89	0.99	0.99	0.89
Allowance for Loan Losses/Delinquent Loans	91.35	87.24	82.37	87.76	104.44
Allowance for Loan Losses/Total Loans	0.71	0.77	0.81	0.87	0.93
Net Charge-Offs/Average Loans	0.37	0.47	0.45	0.37	0.30
Net Income/Average Assets	0.87	0.96	1.05	1.10	1.13
Gross Income/Average Assets	7.95	8.26	8.47	8.33	8.20
Cost of Funds/Average Assets	3.22	3.40	3.43	3.34	3.30
Net Margin/Average Assets	4.74	4.86	5.04	4.99	4.90
Operating Expenses (- PLL)/Average Assets	3.38	3.62	3.70	3.65	3.60
Provision for Loan Losses/Average Assets	0.25	0.30	0.29	0.24	0.17
Loan Income/Average Loans	8.49	8.96	9.18	9.28	9.29
Investment Income/Average Investments	6.55	5.97	6.18	5.89	5.70
Interest and Dividends/Average Total Savings	3.67	3.88	3.91	3.80	3.72
Total Loans/Total Assets	64.18	61.07	63.78	62.56	60.79
Total Investments/Total Assets	23.14	33.54	30.97	32.15	33.58
Fixed Assets/Total Assets	2.33	2.16	2.14	2.05	2.05
Total Loans/Total Savings	73.81	69.92	73.33	71.52	69.21
Total Borrowings/Total Savings	0.81	0.37	0.33	0.21	0.23

### DISTRIBUTION OF GROSS INCOME

Interest refunded to borrowers	0.36%	0.34%	0.44%	0.44%	0.48%
Operating expense	45.43	43.63	43.45	43.60	43.87
Provision for loan loss expense	3.10	3.65	3.43	2.83	2.13
Interest on borrowings	0.24	0.19	0.22	0.11	0.14
Interest and dividend cost	40.09	40.76	40.11	39.83	40.23
Retained earnings	10.78	11.43	12.35	13.19	13.15
Total	100.00%	100.00%	100.00%	100.00%	100.00%

## CLASSIFICATION OF STATE-CHARTERED CREDIT UNIONS BY ASSET SIZE (EXCLUDES CENTRAL CORPORATE CREDIT UNION)

	Number of Credit Unions		Increase (Decrease) In Number From Prior Year	1999 Total Assets (000's Omitted)	Percentage In Group
	1998	1999			
\$250,000 or less	6	5	(1)	\$ 788	0.01%
\$250,000 to \$500,000	6	6	0	2,563	0.02
\$500,000 to \$1,000,000	11	6	(5)	3,960	0.03
\$1,000,000 to \$2,000,000	21	19	(2)	27,151	0.21
\$2,000,000 to \$5,000,000	39	38	(1)	130,587	1.03
\$5,000,000 to \$10,000,000	43	38	(5)	277,352	2.18
\$10,000,000 to \$20,000,000	48	46	(2)	656,944	5.17
\$20,000,000 to \$50,000,000	78	68	(10)	2,236,003	17.60
\$50,000,000 to \$100,000,000	35	42	7	2,668,670	21.01
\$100,000,000 to \$200,000,000	17	20	3	2,606,674	20.52
\$200,000,000 to \$400,000,000	8	9	1	2,559,609	20.15
Over \$400,000,000	3	3	0	1,532,893	12.07
Total	315	300	(15)	\$12,703,194	100.00%

## 1999 CREDIT UNION DIVISION REGIONS AND FIELD STAFF

### INFORMATION SYSTEMS— STATEWIDE

Terry L. Hassell, Senior Examiner  
Patricia K. Marson, Senior Examiner

### REGION 1—LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Freya I. McGinty, Regional Supervisor  
James H. McMullen, Exam Manager  
Anthony A. Hamilton, Senior Examiner  
Mark A. Utrecht, Senior Examiner  
Jeffrey J. Ballard, Senior Examiner  
Brent A. Moeggenborg, Senior Examiner

### REGION 2—SOUTHEAST MICHIGAN

Alice L. Censier, Regional Supervisor  
Wanda F. Marshall, Exam Manager  
Toni L. Girolami, Senior Examiner  
Debra R. Sitz, Senior Examiner  
Carl Woods, Senior Examiner  
Stephen J. Doemer, Examiner  
Crystal Richland, Examiner

### REGION 3—SOUTHEAST MICHIGAN

Delores T. Bledsoe, Regional Supervisor  
David A. Rogers, Exam Manager  
Rosalyn D. Gibson, Senior Examiner  
Brenda S. Hopper, Senior Examiner  
Dollinda Osborne, Senior Examiner  
Stanley R. Kossakowski, Examiner  
Marc E. Suchyta, Examiner

### REGION 4—UPPER PENINSULA

Gary D. Groves, Regional Supervisor  
John M. Lyle, Exam Manager  
David J. Theoret, Senior Examiner

### REGION 5—LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Leanne M. O'Brien, Regional Supervisor  
Scott D. Thompson, Exam Manager  
Robert J. Krueger, Senior Examiner  
Stephen L. Nakfoor, Senior Examiner  
Denice L. Fedewa, Examiner  
Karen J. Tingley, Examiner



# LICENSING AND ENFORCEMENT DIVISION



Barbara J. Streffling  
Director

Linda L. Martin  
Executive Secretary

Rhonda S. Alvarado  
Secretary

Jean K. Carr  
Secretary

Marcia J. Miller  
Complaint Specialist

Mark W. Weigold  
Licensing Supervisor

Pamela K. Baker  
Senior Examiner

Karen E. Porter  
Senior Examiner

James E. Westrin  
Analyst

Amy L. LeVasseur  
Student Assistant

Erin M. Martin  
Student Assistant

## AUTHORITY

The Licensing and Enforcement Division is responsible for the licensing of over 5,000 financial institutions under the following consumer finance statutes:

- Consumer Financial Services Act
- Credit Card Act
- Mortgage Brokers, Lenders, and Servicers Licensing Act
- Motor Vehicle Sales Finance Act
- Regulatory Loan Act
- Sale of Checks Act
- Secondary Mortgage Loan Act

In addition to the processing of license applications, the division is responsible for processing license renewals and amendments, conducting background investigations of license applicants, conducting enforcement actions and conservatorships, investigating consumer complaints against regulated entities, and making recommendations to assist senior management in the development of policies regarding the licensing and regulation of nondepository financial institutions.

## CONSUMER FINANCE STATUTES

### CONSUMER FINANCIAL SERVICES ACT

The Consumer Financial Services Act, Act No. 161 of the Public Acts of 1988, as amended, provides for the licensing and regulation of institutions which provide a variety of financial services, and eliminates the need to acquire a separate license for each activity. A "Class II" license authorizes services under the Regulatory Loan Act, Motor Vehicle Sales Finance Act, Secondary Mortgage Loan Act, and Credit Card Act. A "Class I" license authorizes

services under the Sale of Checks Act and Mortgage Brokers, Lenders, and Servicers Licensing Act in addition to the authorities provided under a Class II license.

A Class I license under the act requires a bond of \$125,000 plus \$3,000 for each Sale of Checks agent up to \$250,000, and a minimum net worth of \$100,000. A Class II license requires a bond of \$25,000, and a minimum net worth of \$50,000.

The Consumer Financial Services Act was modernized in late 1999, to mirror some of the changes made in earlier modernizations of the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act. For example, under the modernization, separate licenses for each branch office will no longer be required, and an annual operating fee (in lieu of an annual license renewal fee) will be assessed based on a licensee's volume of business during the preceding year. The amended act will become effective January 5, 2000.

There were 144 offices operating under a Class I license and 65 offices operating under a Class II license at year-end 1999. This compares to 154 Class I licensees and 68 Class II licensees as of December 31, 1998.

### **CREDIT CARD ACT**

The Credit Card Act, Act No. 379 of the Public Acts of 1984, as amended, authorizes the licensing and regulation of non-depository issuers of credit cards. A mini-

mum net worth of \$1,000,000 is required by the act. The commissioner may establish a higher net worth requirement if it is necessary to assure a safe and sound operation. There are no bonding requirements.

Four companies were licensed under the act as of December 31, 1999, unchanged from the prior year.

### **MORTGAGE BROKERS, LENDERS, AND SERVICERS LICENSING ACT**

The Mortgage Brokers, Lenders, and Servicers Licensing Act, Act No. 173 of the Public Acts of 1987, as amended, provides for licensing, registration, and regulation of mortgage brokers, mortgage lenders, and mortgage servicers. The act pertains to loans secured by first mortgages or land contracts covering real property located in the state of Michigan, which is used, or improved to be used, as a dwelling and designed for occupancy by four or fewer families. Licensees are typically required to have a minimum net worth ranging from \$25,000 to \$100,000 and must generally post a bond, letter of credit, or certificate of deposit in amounts ranging from \$25,000 to \$125,000, depending on the type of services being offered.

There were 1,270 licensees and 283 registrants at year-end 1999. This compares to 952 licensees and 261 registrants as of December 31, 1998.

### **MOTOR VEHICLE SALES FINANCE ACT**

The Motor Vehicle Sales Finance Act, Act No. 27 of the Public Acts of 1950, as

amended, regulates certain installment sales of motor vehicles. It provides for licensing and regulation of both the installment sellers, who are motor vehicle dealers originating installment sales contracts, and sales finance companies, the financial institutions that purchase these contracts from the dealers. The act requires bonding of sales finance companies ranging from \$5,000 to \$20,000 for main offices, plus \$10,000 for each branch office. Installment sellers do not have a bonding requirement. The act imposes no net worth requirements on installment sellers or sales finance companies.

As of December 31, 1999, there were 2,147 dealers licensed as installment sellers, down from 2,165 at year-end 1998. There were 815 sales finance companies (including depository financial institutions) at the end of 1999, declining from 868 at year-end 1998.

### **REGULATORY LOAN ACT**

The Regulatory Loan Act, Act No. 103 of the Public Acts of 1963, as amended (successor to Act No. 317 of the Public Acts of 1921, the Small Loan Act), authorizes the licensing and regulation of entities which make personal loans to consumers. The act prohibits the use of real estate as security for these loans. The act has no bonding requirement, however, licensees are required to maintain \$50,000 in liquid assets.

There were 52 licensees at year-end 1999, as compared to 51 on December 31, 1998.

### **SALE OF CHECKS ACT**

The Sale of Checks Act, Act No. 136 of the Public Acts of 1960, as amended, authorizes the licensing and regulation of the business of selling and issuing travelers checks, drafts, and money orders as a service or for a fee. The act also regulates telegraph companies which transfer funds by wire. The act requires a \$100,000 minimum net worth and a minimum bond of \$100,000 plus \$3,000 for each agent up to a maximum of \$250,000.

At the end of 1999, there were 20 sale of checks licensees, as compared to 21 at year-end 1998.

### **SECONDARY MORTGAGE LOAN ACT**

The Secondary Mortgage Loan Act, Act No. 125 of the Public Acts of 1981, as amended, authorizes the licensing, registration and regulation of entities which make secondary mortgage loans for personal, family, or household purposes. The act also allows for loans secured by other collateral in addition to real property. Licensees are typically required to have a net worth ranging from \$25,000 to \$100,000 and must generally post a bond or letter of credit in an amount ranging from \$25,000 to \$125,000, depending on the type of services being offered.

There were 21 licensees and 497 registrants under the act as of December 31, 1999, compared to 27 licensees and 404 registrants at year-end 1998.

## LICENSING TRENDS

The number of licensees and registrants under the division's jurisdiction grew significantly during the year. In 1999, the division processed over 1,100 new license and registration applications and over 4,700 applications for renewal. The total license and registration population in all seven programs topped 5,000 for the first time, and ended the year at 5,318.

The most significant increase was in the division's first mortgage program, which grew 28% over the course of the year, and a phenomenal 62% since year-end 1997. The mortgage industry has benefited greatly from a strong economy, with an extended period of low interest rates and high mortgage refinance activity. However, with the recent upward trend in mortgage interest rates, a decrease in mortgage originations is likely. As a result, some shake-out in the mortgage industry is expected in the coming year.

## Y2K UPDATE

Beginning in 1998, most license applicants were required to provide a description of their plans to ensure Year 2000 readiness. By and large, this transition by licensees into 2000 occurred without incident, and very few Y2K-related problems were reported to the division.

## ENFORCEMENT ACTIVITIES

Various enforcement actions were taken during the year which resulted in license

revocations, orders to cease and desist, and application denials and withdrawals.

As of December 31, 1999, the division had several enforcement actions pending. Administrative hearings or other actions on these matters have been scheduled for 2000.

### MCA FINANCIAL CORP.

On January 28, 1999, Commissioner Patrick M. McQueen issued an "Order Appointing Conservator," which placed the failed MCA Financial Corp. and its eleven affiliates ('MCA') into conservatorship. MCA was a large mortgage broker, lender, and servicer headquartered in Southfield, Michigan. It also operated in a number of other states.

Concerns regarding MCA's servicing of mortgage and land contract accounts prompted the commissioner's action. Mortgage payments made to MCA by consumers were not being properly credited to their accounts, and payments for property taxes and homeowners insurance were not being made to the taxing authorities or insurance carriers. Two of the MCA affiliates, MCA Mortgage Corporation and Mortgage Corporation of America, were registered with the Bureau under the Mortgage Brokers, Lenders, and Servicers Licensing Act and/or the Secondary Mortgage Loan Act.

Under the commissioner's order, B. N. Bahadur of BBK, Ltd. was named MCA's conservator. On February 11, 1999, a

---

petition for Chapter 11 bankruptcy was filed by the conservator in the United States Bankruptcy Court, Eastern District of Michigan. The bankruptcy remained in effect at year-end 1999.

The conservator, who was also appointed debtor-in-possession under the Chapter 11 bankruptcy proceeding, has managed the affairs of MCA on a day-to-day basis. However, Bureau staff has continued to work with the conservator throughout the year on numerous complex issues relating to the bankruptcy and wind-up of MCA's affairs.

## COMPLAINT ACTIVITIES

During 1999, the division received over 500 written complaints filed against licensees by consumers and creditors. As in previous years, the vast majority of total complaints were filed against mortgage companies. Many of the complaints involved problems with the mortgage application process. Others involved the mortgage servicing function, including the non-payment of property taxes and/or insurance, imposition of late fees, failure to properly credit payments, and increases in escrow balances in excess of federal guidelines.

## POLICY BULLETIN

On July 13, 1999, the Bureau issued Motor Vehicle Bulletin 1999-1, regarding the disclosure of negative equity on installment sale contracts. In a related declaratory rul-

ing issued by Commissioner Patrick M. McQueen on April 23, 1999, the Bureau concluded that a licensee under the Motor Vehicle Sales Finance Act may, on an installment sale contract for the purchase of a motor vehicle, finance the amount of negative equity associated with a vehicle traded in. Bulletin 1999-1 was issued to provide further guidance on the method which should be used by licensees to disclose negative equity on installment sale contracts.

Each license applicant under the Motor Vehicle Sales Finance Act, prior to receiving a license, must submit its installment sale contract to the division for approval. The division reviews each contract to ensure that it complies with the provisions of Motor Vehicle Bulletin 1999-1.

## STAFF TRAINING AND PROFESSIONAL DEVELOPMENT

The Division maintains a strong commitment to training and professional development. All division staff members attended at least two professional development or training seminars during 1999, including classes and seminars offered by the National Association of Consumer Credit Administrators, Michigan Association of Certified Public Accountants, and the Department of Civil Service.

During the year, division staff members also spoke at the Michigan Mortgage Brokers Association Annual Meeting, and served as panelists during the 1999



National Association of Consumer Credit Administrators Examiners School.

## FIB WEB SITE

During 1999, significant additional information relating to the division's programs was added to the Bureau's Web site. The following information may be found on our site at [www.cis.state.mi.us/fib/](http://www.cis.state.mi.us/fib/):

- copies of consumer finance statutes and administrative rules

- license and registration application forms
- licensing fee schedules
- answers to frequently asked questions
- policy bulletins and position statements
- declaratory rulings
- consumer complaint form
- licensee and registrant name and address listings

## LICENSEES AS OF DECEMBER 31

	1999	1998
<b>CONSUMER FINANCIAL SERVICES ACT</b>		
Number of Class I licensees	144	154
Number of Class II licensees	65	68
<b>CREDIT CARD ACT</b>		
Number of licensees	4	4
<b>MORTGAGE BROKERS, LENDERS, AND SERVICERS LICENSING ACT</b>		
Number of licensees	1,270	952
Number of registrants	283	261
<b>MOTOR VEHICLE SALES FINANCE ACT</b>		
Number of sales finance licensees	815	868
Number of installment seller licensees	2,147	2,165
<b>REGULATORY LOAN ACT</b>		
Number of licensees	52	51
<b>SALE OF CHECKS ACT</b>		
Number of licensees	20	21
<b>SECONDARY MORTGAGE LOAN ACT</b>		
Number of licensees	21	27
Number of registrants	497	404

# EXAMINATION DIVISION



Ann Gaultney  
Director

Paulette Smith  
Secretary to Director

Allan J. Huber  
Review Examiner

Robert G. Andrews  
Examination Supervisor

Michael Gomez  
Senior Examiner

Linda D. Juntunen  
Examiner

Elliott D. Purty  
Senior Examiner

Mathew R. Van Vleck  
Senior Examiner

Heidi B. White  
Senior Examiner

Lisa S. Thelen  
Student Assistant

## STATUTORY AUTHORITY

The Examination Division is responsible for examining, investigating, and supervising over 5,000 licensees and registrants under the following consumer finance statutes:

- the Consumer Financial Services Act;
- the Credit Card Act;
- the Mortgage Brokers, Lenders, and Servicers Licensing Act;
- the Motor Vehicle Sales Finance Act;
- the Regulatory Loan Act;
- the Sale of Checks Act; and
- the Secondary Mortgage Loan Act.

The division examines and supervises non-depository licensees and registrants to ensure that they operate safely, responsibly, and in compliance with applicable law.

The division's other responsibilities include:

- initiating enforcement actions against licensees and registrants based upon the results of the examinations and investigations conducted under the statutes noted above;
- analyzing mandated filings of annual reports and financial statements by non-depository licensees and registrants; and
- assisting with numerous requests made under the Freedom of Information Act for annual reports and financial statements.

## EXAMINATION AND SUPERVISION

The division conducted examinations and/or investigations in 1999 under all consumer finance statutes listed above except the Credit Card Act.

With an ever-increasing population of non-depository licensees and registrants to supervise, the division has implemented new methods designed to more efficiently supervise the population. Previously, the division revised its method of conducting examinations and investigations of large, complex financial institutions. In 1999, the division focused on changing its examinations

and investigations of smaller entities. The division wanted to conduct more examinations, yet did not want to compromise the quality of the detailed examination. The result is a condensed exam with a more limited scope.

In 1999 the division continued to utilize off-site examinations to more effectively supervise financial institutions which do not have a physical presence within the state and which had a limited amount of Michigan activity.

## ENFORCEMENT ACTIONS

In 1999, the division initiated enforcement actions against 204 licensees and registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act for failure to file required annual reports, failure to file required financial statements, and/or failure to pay outstanding invoices. The status of these actions is:

- 127 closed;
- 42 pending; and,
- 35 withdrawn.

As a result of these actions, civil fines of approximately \$91,000 and late penalties of approximately \$257,000 were assessed.

In 1999, the division also took administrative action against nine companies, as a result of examinations and/or investigations. These actions include:

- Placing MCA FINANCIAL CORPORATION and its affiliate companies into a Conservatorship on January 28, 1999, naming B. N. Bahadur, of BBK, Ltd., as Conserva-

tor. MCA Financial Corporation, headquartered in Southfield, Michigan, was a large mortgage broker, lender, and servicer in Michigan and in other states. MCA Financial Corporation's mortgage lending and servicing subsidiaries were registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act. While the company had earlier ceased brokering and lending activities, the servicing activity and obligations continued. MCA Financial Corporation's handling of the servicing of mortgage and land contract accounts prompted the commissioner's action.

- Suspending the mortgage broker and lender license of PYRAMID MORTGAGE, INC. (d/b/a Gold Mortgage), Dearborn, Michigan, on October 20, 1999. A Consent Order resolving the matter was issued January 12, 2000. The commissioner ordered Pyramid Mortgage, Inc. to pay a civil fine in the amount of \$5,000 and revoked its mortgage broker and lender license. Also, Pyramid Mortgage, Inc. agreed not to apply for any financial lending license issued by the FIB for two and one half years.
- Suspending the mortgage broker and lender license of QUALITY MORTGAGE CORPORATION, Utica, Michigan, on November 22, 1999, and issuing a Cease and Desist Order against its officers, directors, employees, and agents, including DENNIS LYSEK. The summary suspension continues pending a hearing. Staff investigators charged that Quality Mortgage Corporation engaged in a pattern of fraud, deceit,

and misrepresentation in connection with its licensed activities under the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act.

- Suspending the mortgage broker and lender license of FUTURE FINANCIAL SERVICES, INC., Birmingham, Michigan, on December 17, 1999. The license suspension continues pending a hearing. Division staff alleged that illegal stock transfers were made to Brandon Rosenberg and Paul M. Edwards, Jr., neither of whom were licensed by the State of Michigan to operate as mortgage brokers/lenders. Additionally, it is charged that neither Rosenberg nor Edwards could be licensed under the provisions of the Mortgage Brokers, Lenders, and Servicers Licensing Act, because they lack the requisite character and fitness required by the act. Finally, the FIB examination found that the financial accounting records were in "utter disarray and grossly inadequate."
- Suspending the mortgage broker and lender license of OMNI MORTGAGE SERVICES, INC., Dearborn, Michigan, on December 22, 1999. The suspension continues pending a hearing. Division staff alleged that Omni Mortgage Services, Inc. failed to adhere to a consent order signed in May 1999, and that there appeared to be continued violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act.

The year also brought about the culmination of three enforcement actions, com-

menced in earlier years. These actions resulted in:

- OMNI MORTGAGE SERVICES, INC. being ordered to pay a civil fine plus costs of investigation in the amount of \$20,000 to the Financial Institutions Bureau, being ordered to terminate Hassan Chebbani as an employee, and a 30-day suspension of its license.
- ANDREW E. SZEKELY DBA FUNDING ONE admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act.
- AGGRESSIVE MORTGAGE CORPORATION admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act, and agreeing not to apply for any license issued by the FIB for ten years.

Two enforcement actions undertaken in previous years remain in process.

## COMMUNICATIONS

The division published two First Mortgage Regulatory Newsletters in 1999. The purpose of the newsletter is to provide a means for informing licensees and registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act, the Secondary Mortgage Loan Act, and the Consumer Financial Services Act about various problems or issues which have come to our attention through examinations. In this way, licensees and registrants can learn from the mistakes of others and take appropriate action to correct any similar deficiencies noted in their operations. Topics covered in the 1999 newsletters include:

- the examination process—after the exam is over.
- the FIB's new automated phone system.
- acting commissioner appointed.
- administrative actions taken against companies.
- filing your annual report and financial statement.
- forms and dues dates.
- the revision of second mortgage rules.
- content of the annual report and financial statement.
- licenses suspended.
- common reporting errors.

Copies of the newsletters may be obtained from the Bureau's Web site, located at [www.cis.state.mi.us/fib](http://www.cis.state.mi.us/fib).

## Y2K

The advance into the year 2000 brought about few Y2K-related problems with licensees and registrants. While the FIB did not anticipate major problems, FIB personnel were available on December 31, 1999 and January 1, 2000 to deal with any problems resulting from the transition into the year 2000.

## STAFF TRAINING

The division is committed to maintaining a highly competent examination and office staff. One of the ways the division accomplishes this is through appropriate staff training. Examination staff attended training in areas such as mortgage fraud, federal regulations, team leadership, and management skills.

## PROFESSIONAL ORGANIZATIONS

Division personnel take an active role in the regulatory community. Ann Gaultney has served as an officer of the National Association of Consumer Credit Administrators (NACCA) since 1991. In much of 1999, she held the position of First Vice President of NACCA and was responsible for organizing the annual Examiners' School held in East Lansing, Michigan. In October 1999, Ms. Gaultney was elected President of NACCA.

During the year, Ann Gaultney also served on the Board of Directors for the American Association of Residential Mortgage Regulators.

Ann's staff also is involved in spreading the regulatory message. In 1999, her staff gave a presentation for the Michigan Mortgage Brokers Association on examination issues.

## INFORMATION ON THE FIB WEB SITE

A wealth of information is available on the Bureau's Web site, [www.cis.state.mi.us/fib](http://www.cis.state.mi.us/fib), including:

- links to consumer finance statutes;
- answers to frequently asked questions;
- policy bulletins;
- newsletters issued by the division;
- press releases; and
- forms for filing annual reports and financial statements.



# ADMINISTRATION DIVISION



Philip F. Rooney  
Director

Julia A. Kennicott  
Executive Secretary

Sonya W. Dungey  
Manager, Management Services

Danielle R. Powers  
Human Resource Assistant

Judie C. Bennett  
Information Management  
Specialist

Emily DeLaGarza  
Financial Assistant

David P. McCallie  
Mail Coordinator

Mina M. Malcolm  
Microfilm Operator

Stanley S. Pollitt  
Revenue Coordinator

Kathleen A. Simon  
Financial Specialist

Jennifer A. Taylor  
Student Assistant

Ricky K. Withers  
Student Assistant

Leigh A. Scherzer  
Supervisor, Technology Support

Robert R. Bowes  
Programming Specialist

C. Chad Christie  
Student Assistant

Daphne C. Raborn  
Student Assistant

Donald R. Ward  
Computer Specialist

Paul C. Wei  
Programming Specialist

## ADMINISTRATION

The director of Administration and staff provide administrative services to support Bureau programs in the areas of human resources, labor relations and training, budget development and financial management, microcomputer systems and support, physical facilities, and various office management activities.

Support services are provided at a minimum of cost by consolidating services and reducing duplication. These support services assist other division managers in performing their examination, supervision, and regulation functions, and thereby utilizes their respective resources more effectively in carrying out the Bureau's mission and goals.

## MANAGEMENT SERVICES

Management Services (MS) has responsibility for a variety of support services including: The human resource management and training program; policy and procedure development and implementation; administration and oversight of the Performance Planning Review and Development Program (PPRDP); financial management including coordinating development of the Bureau budget; Bureau record retention and disposal schedule; Bureau microfilm operations; and various other special projects and support activities.

## CURRENT ACTIVITIES

Accomplishments and activities in 1999 included: Training all Bureau employees on the use of a new timekeeping system, and conducting orientation sessions for new employees; implementing the Bureau-wide PPRDP employee evaluation system; preparing internal microcomputer systems for Year 2000 compliance; revising the Bureau's Policies and Procedures Manual; and revising procedures for processing Bureau revenue refunds.

In addition, division employees lead two Bureau task forces:

- A digital imaging group which issued a report with recommendations on information management and future record-keeping systems, including the integration of digital imaging; and
- A telecommunications group, which implemented a new Bureau voice menu system that better uses employee resources.

## **YEAR 2000**

In anticipation of the Year 2000, the division worked in 1998 and 1999 to identify necessary modifications to the security system for the Bureau's Lansing office, and the Bureau's revenue processing system. The systems were reviewed, modified, tested, and were Year 2000 compliant prior to December 1999.

## **TRAINING**

Division employees attended several classes and seminars during 1999.

Those sessions included:

- Classes offered by outside vendors such as Grammar and Usage, and Time Management—Franklin Covey: What Matters Most
- Clemson University's Conference for Women on How to Become a Great Communicator
- Michigan Department of Civil Service classes on Conquering Workplace Negativity, and Investing for Retirement
- Division administrative support and labor and trades employees attended the Bureau's Administrative Support Group

Committee's annual seminar which was on Teambuilding

## **BUREAU REVENUE AND EXPENSES**

The Bureau's expenses are funded entirely from restricted revenue. This revenue is generated from fees assessed financial industries regulated by the Bureau for supervision, examinations and investigations, fines, corporate transactions, applications and license renewals. Expenses include employee payroll, travel costs, supplies, communications, rent, computer network and contractual services. The Bureau is assessed overhead charges for building rent and for services provided to it by the departments of Consumer and Industry Services, Attorney General, and Civil Service. (See charts on page 55.)

## **TECHNOLOGY SUPPORT**

Technology Support has responsibility for installing and maintaining the Bureau's computer hardware and software, network connectivity, and for coordinating computer-related training.

## **ROLE AND GOALS**

Technology Support was established to provide the Bureau with support staff and technical assistance required to advance usage of microcomputers within the Bureau. Its goals are to:

- Achieve office automation and the automation of administrative tasks through the usage of microcomputers and computer software applications

- Improve the efficiency and effectiveness of financial institution examinations through the use of microcomputers in the areas of financial modeling and projection, pre-examination analysis, off-site surveillance, and other uses of software applications
- Develop and maintain permanent internal data processing support resources

Technology Support's objective is to develop and maintain a technology plan for conducting ongoing research, development, and deployment of microcomputers to automate the Bureau's activities wherever possible. Additional objectives are to:

- Obtain and maintain sufficient microcomputer equipment and related technological resources to achieve the goals of the program;
- Conduct ongoing research into newer and better ways to utilize microcomputer technology within the Bureau; and
- Develop software internally and through joint efforts with other state and federal regulatory agencies.

## ACCOMPLISHMENTS

During the past year, accomplishments included:

- Completion of a replacement of all obsolete Bureau-owned desktop computers and printers;
- Configuration and deployment of thirty-five notebook computers to Credit Union Division field staff;

- Purchase and deployment of new portable printers for Bureau field staff;
- Major progress on the consolidation of the three Credit Union database systems;
- Modifications to the FIB Revenue Processing System to interact with other billing systems in the Bureau;
- Purchase and deployment of a new high-speed printer and a new color laser printer;
- Completion of final migration of all Bureau computer users from WordPerfect and Lotus to Word and Excel; and
- Development and implementation of an in-bound fax service for Bureau field staff.

## YEAR 2000

Technology Support developed its initial Year 2000 remediation plan in July 1997. All required reports were filed with the Office of Technology Resources, Department of Consumer and Industry Services (CIS). Technology Support completed Year 2000 testing of all Bureau computers by March 9, 1999 and completed Year 2000 remediation of all FIB mission-critical computer programs by March 31, 1999. The Bureau received its Year 2000 readiness certification from CIS on April 22, 1999.

Technology Support staff remained on call during the Year 2000 weekend, with zero incidents reported for either hardware operations or in software applications.

## REVENUE BY SOURCE

Program	FY99	FY98	FY97
Bank	\$ 6,108,154	\$ 6,238,401	\$ 6,336,095
Credit Union	4,035,125	3,871,524	3,765,005
BIDCO	59,060	98,055	46,522
Credit Card	2,650	3,950	1,100
Sale of Check	20,730	15,500	13,600
First Mortgage	1,575,539	1,245,839	1,049,681
Motor Vehicle	135,623	134,485	140,266
Omnibus	104,211	161,731	291,643
Secondary Mortgage	295,854	186,052	337,025
Regulatory Loan	43,060	32,390	26,150
Total Restricted Revenue	\$12,380,006	\$ 11,987,927	\$12,007,087

## EXPENSE BY PROGRAM

Program	FY99	FY98	FY97
Commissioner	\$ 63,194	\$ 83,404	\$ 100,700
Administration	1,237,952	1,156,522	1,229,569
Bank	4,808,259	4,378,728	4,980,898
Credit Union	3,471,628	2,936,714	3,029,397
Corporate Regulatory Services	0*	509,938	644,477
Consumer Protection	1,758,687	1,536,497	1,496,562
Research and Consumer Services	336,687	333,851	323,050
Total Expense	\$11,676,407	\$ 10,935,654	\$11,804,653

\*Corporate Regulatory Services merged with Banks; no longer separate reporting entity.

(I.D.—BLANK PAGE)



*The Department of Consumer & Industry Services will not discriminate against any individual or group because of race, sex, religion, age, national origin, color, marital status, disability, or political beliefs. If you need assistance with reading, writing, hearing, etc., under the Americans with Disabilities Act, you may make your needs known to this agency.*



Serving Michigan...Serving You



Printed on Recycled Paper

# FINANCIAL INSTITUTIONS BUREAU

P.O. BOX 30224  
LANSING, MI 48909

Bulk Rate  
U.S. Postage

**PAID**

Lansing, Michigan  
PERMIT NO. 1200